PIEDMONT COMMUNITY SERVICES

Martinsville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE ▫ RICHMOND ▫ FREDERICKSBURG ▫ STAUNTON ▫ BLACKSBURG ▫ LOUISA

PIEDMONT COMMUNITY SERVICES
Martinsville, Virginia

FINANCIAL REPORT - YEAR ENDED JUNE 30, 2015

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Organization of Directors

Charles Wagner, Chair
Steve Eanes, 1st Vice-Chair
Carol Nelson, 2nd Vice-Chair

Franklin County

Justin Sigmon
Diane Lovell
Tillie Thompson
Charles Wagner
Peggy Woody

Henry County

Linda R. Drage
Steve Eanes
Tony Millner
Carol Nelson
Dr. Paulette R. Simington

Patrick County

Astrid Cole
Jane Carlson

City of Martinsville

Vacant
Mark Stroud

Key Administrative Staff

James Tobin	Executive Director
Caroline Pilson	Director of Finance
Kippy Cassell	Director of Information Technology
Bonnie Favero	Director of Prevention/Healthy Families
Ronald Hairston	Director of Human Resources
Brian "Greg" Preston	Director of Community Support
Sharon Buckman	Clinical Services Director

PIEDMONT COMMUNITY SERVICES
Organizational Chart
Administration

Martinsville
Henry County
Franklin County
Patrick County

Board of Directors

Executive Director
Jim Tobin

Administrative Assistant
Renee Laprade

Director of Community Support Serv.
Greg Preston

- Teresa Hooper-ID CM Coordinator
- Annie Webster- PSR Coordinator
- Shannon Clark- Martinsville/HC/PC Coordinator
- Judy Andersen-Franklin County Coordinator
- Todd Woodall- Budget Specialist
- Lynn Fleming- Administrative Specialist
- Carolyn Whiting- Property Manager

Prevention/Healthy Families
Bonnie Favero

- Valerie Blevins - Prevention Spec.
- Morgan McCarty - Prevention Spec.
- Katie Connelly- Comm. Org. (Contract)
- Matthew Brown- Prevention Spec.
- Mary Kate Dillon - Prevention Spec.
- Donna Ferguson - Prevention Spec.
- Kristi Norton - Prevention Spec.
- Debbie Seals - Prevention Spec.
- Sherry Winn - Healthy Families Mgr
- Amy Greer - Lead Early Intrvntnt
- Regina Clark - Community Organizer

Director of Finance/Reimbursement
Caroline Pilson

- Mary Potter- Internal Auditor
- Sandra Blevins- A/P Specialist
- Donna Doughton- Accounting Specialist
- Veraine Randolph- Finance Specialist
- Patty Wall- Reimbursement Coordinator
  - Tammy Eames- Reimbursement Lead
  - Sandy Goad- Financial Receptionist
  - Elva Wilson- Collections
  - Krenda Kahle- Reimbursement Specialist
  - Sandra Keatts- Receptionist
  - Fernanda Martin- Reimbursement Specialist
  - Karen Rorrer- Receptionist
  - Melissa Gregory- Billing Support Specialist
- Bonita Vipperman- QA Manager (Contract)
- Julia Campbell- QA Specialist

Director of Human Resources
Ron Hairston

- Kathy Hutchens- HR Specialist
- Becky Lovell- Public Relations

Director of Information Technology
Kippy Cassell

- Sam Petty- Sr. Network Administrator
- Oliver Still- Software Support Technician
- Deborah Burge - Records Technician
- Lue Redd - Switchboard Operator
- Stephanie Ross - Records Technician

Director of Clinical Services
Sharon Buckman

- Kelly Koebel- Senior Clinical Mgr
- Terri Crews- FC Clinical Manager
- Darwin Honeycutt- PC Clinical Manager
- Dr. Don Tessman- Medical Director
- Susie Sizemore- Administrative Specialist
- Lisa Smith- Community Recovery Program Mgr.
- Cliff Roop- Veterans Resource Specialist
- Darryl Alexander- Residential Mgr.

Independent Auditors' Report

To the Board of Directors
Piedmont Community Services
Martinsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Piedmont Community Services, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Piedmont Community Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Community Services, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, in 2015, Piedmont Community Services adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of pension funding on pages 4-7 and 40-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Piedmont Community Services' basic financial statements. The combining financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Report on Summarized Comparative Information

We have previously audited Piedmont Community Services' 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 11, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

As described in Note 16 to the financial statements, GASB Statement Nos. 68 and 71 were implemented prospectively resulting in a restatement of beginning net position. In the year of implementation, comparative information for the net pension asset and related items was unavailable. Therefore, the 2014 amounts related to pensions have not been restated to reflect the requirements of GASB Statement Nos. 68 and 71. Our opinion is not modified with respect to this matter.

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015 on our consideration of Piedmont Community Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Piedmont Community Services' internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 23, 2015

The following Management's Discussion and Analysis (MD&A) of Piedmont Community Services' financial performance provides an introduction and overview to the financial statements for the fiscal year ended June 30, 2015.

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

Revenue

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

Disability		FY 2015		FY 2014
Mental Health	$	11,614,532	$	10,980,046
ID Services		5,486,923		5,774,793
Substance Abuse		3,204,416		3,068,461
Total	$	20,305,871	$	19,823,300

Medicaid remains the largest source revenue for PCS, with collections totaling $11 million.

$651,000 was spent for Discharge Assistance Program (DAP) recipients. These funds provide housing and wrap around services for clients transitioning from long term MH institutional stays back to community settings. These funds are managed by a Regional Consortium consisting of Piedmont, Danville CSB, South Side Community Services, and Southern Virginia Mental Health Institute.

First initiated as a two year trial, the state finalized approval for ongoing funding of $263,000 Restricted State Funds to continue operations of a Secure Assessment site at the Martinsville hospital, providing law enforcement security as well as MH professional assessment capability. This Secure Assessment site allows the law enforcement officers to leave the consumers in custody of contracted off-duty officers so that on-duty officers can get back to their normal duties. The assessment can be conducted in many cases without admission to the hospital, which is less expensive, and also less intrusive to the consumers. The Assessment Program operates 2-12 pm daily, which is the time most crisis episodes occur. Because of the success with the Martinsville site, additional funds are being awarded in FY16 to provide similar capacity in the Rocky Mount hospital.

PCS utilized $166,000 regional funds to support the start up of an Intensive Community Treatment (ICT) in Martinsville which became operational in March 2015. Subsequent to the start up, DBHDS awarded PCS funds to convert this program into a more intensive service called PACT (Program of Assertive Community Treatment) to become effective during FY16.

Other new DBHDS funds for FY15 include regional funds for suicide first aid and prevention, funds to enhance telepsychiatry infrastructure to meet demands of more psychiatrist services, and Substance Abuse funds to support Medication Assisted Treatment (Suboxone and Naloxone treatment).

New services inside multiple Henry County elementary and high schools were provided during FY15 with the creation of school based case managers and continued growth of Therapeutic Day Treatment. Among the many schools being served were Albert Harris Middle School, targeted as a "priority school" by the state, and the Center for Community Learning (CCL), an alternative school.

Summary of Operations and Changes in Net Position

	FY 2015	FY 2014
Operating revenue	$ 12,643,982	$ 12,688,200
Operating expenses	19,332,267	19,835,150
Operating income (loss)	$ (6,688,285)	$ (7,146,950)
Nonoperating income (loss)	7,891,528	7,455,449
Change in Net Position	$ 1,203,243	$ 308,499

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

In April 2009, PCS dropped Anthem Health Insurance and became self-insured with the anticipation of reducing the long term escalation of premiums over time. Estimated claims for health insurance incurred but not paid as of June 30, 2015 was $127,950.

Condensed Cash Flow

	FY 2015	FY 2014
Cash flows from operating activities	$ (6,439,482)	$ (6,331,688)
Cash flows from noncapital financing activities	8,027,297	7,493,494
Cash flows from capital and related financing activities	(1,016,964)	(735,193)
Cash flows from investing activities	3,697	6,130
Net cash increase (decrease)	$ 574,548	$ 432,743
Cash and cash equivalents, beginning of year	7,409,751	6,977,008
Cash and cash equivalents, end of year	$ 7,984,299	$ 7,409,751

Consumer fees, operating expenses and personnel expenses determine the operating activities line of the cash flow report. Approximately $260,000 was used to acquire capital assets such as vehicles, furniture and equipment, and for property improvements. $41,585 was paid on mortgages. $72,085 was paid as interest expense.

Factors for the net cash increase include approximately $700,000 of 6/30/2015 balances in earmarked or restricted state and federal funds and another $100,000 grant related restricted funds. The restricted funds include various funding streams including Discharge Assistance, LIPOS, Aftercare Pharmacy, Children's Services, Infant Parent, Prevention, Suicide Prevention, and Harvest Grant for Community Recovery.

Additional cash not designated as restricted include approximately $400,000 prior year carryover balances being earmarked for programs such as regional, pharmacy, jail diversion and other programs. Because they are part of previous year balances, they do not affect current year end cash increases.

Condensed Cash Flow (continued)

Cash and cash equivalents consist of the following at June 30, 2015:

Cash on hand or established as petty cash	$	5,000
Deposits with banks		6,292,509
Deposits with banks (Building Fund)		954,073
Deposits with banks - debt reserve funds		68,902
Deposits held for HUD projects		56,849
Investments - Local Government Investment Pool		606,966
Total cash and cash equivalents	$	7,984,299

Condensed Summary of PCS Statement of Net Position

		FY 2015		FY 2014
Assets				
Current assets	$	9,443,016	$	8,731,266
Restricted assets		154,443		144,057
Other Assets		698,018		-
Capital assets		10,304,731		9,970,155
Total assets	$	20,600,208	$	18,845,478
Deferred outflows of resources				
Pension contributions subsequent to measurement date	$	578,992	$	-
Liabilities				
Current liabilities	$	2,213,663	$	2,121,276
Liabilities payable from restricted assets		34,708		40,007
Long term liabilities		1,660,927		1,704,259
Total liabilities	$	3,909,298	$	3,865,542
Deferred inflows of resources				
Items related to measurement of net pension asset	$	545,570	$	-
Net Position				
Net investment in capital assets	$	8,600,468	$	8,224,308
Restricted		877,320		359,836
Unrestricted		7,246,544		6,395,792
Total net position	$	16,724,332	$	14,979,936

Net Position may serve over time as a useful indicator of the CSB's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $16.7 million at the close of the most recent fiscal year, an increase of $1.1 million from FY14.

PCS staff act as payee representative to several consumers, primarily in residential settings, providing management of individual bank accounts totaling $26,755 on June 30, 2015, reflected in the table above as restricted assets. Other restricted assets are the funds designated for HUD and USDA sites. Of that amount, $126,719 is designated by the funding source for renovation and repair, and security deposits.

Capital Assets

PCS has long range building and property improvements as part of its management priorities. Investments in the cash reserves set aside for buildings totaled $1 M as of June 30, 2015.

During FY14, PCS began construction to expand to the Patrick County Clinic Office. Reserve funds supported the construction cost. The project was completed in FY15. The entire project cost was $1 M.

Construction of the Patrick County Office Expansion project was determined to be in an Enterprise Zone, and PCS was awarded incentive funds to help offset construction costs in the amount of $60,000.

A site in Patrick Springs originally purchased for a potential HUD supported residential project was sold in FY15 to the County of Patrick for approximately $109,000. HUD no longer offers grants for the type project intended for the site and Patrick County government initiated the request for purchase.

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

Long-Term Debt

PCS has $1,704,263 (less current portion $43,336) of debt outstanding. The loan is payable to USDA for Technology Drive, Rocky Mount with final payment due February, 2039.

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

Summary

Piedmont Community Services' financial condition remained strong in fiscal year 2015.

Growth in the future is less certain due to economic conditions of state and local government and the effect on future funding. Also, Health Care Reform has the potential for a significant, but unknown impact.

Commonwealth Coordinated Care (CCC) is transforming into new plans for Medicaid eligible clients as Managed Long Term Care.

The efficiency of IT and Reimbursement functions will be a key component to implementing these changes. “Meaningful use” mandates (a series of governmental requirements for the use of and accessibility of electronic medical records) are in process of being implemented, with additional phases coming up annually.

In the coming fiscal year, PCS will be required to offer health insurance coverage to hourly employees who routinely work 30 hours per week. Up to 25 part-time employees may be eligible.

The future of continued reimbursement will also depend upon meeting managed care organization requirements to hire and retain “qualified health care” providers for the population served by PCS.

Local Inpatient Purchase of Service (LIPOS) funds are utilized to purchase services from community hospitals for persons in psychiatric distress. In 2015, PCS expended $182,548 for these restricted state funds. Of this amount $89,000 was covered by one-time or carried forward funds from previous fiscal years. Without additional state funds in FY16, a shortage could result in a significant financial and service concern.

- Basic Financial Statements -

PIEDMONT COMMUNITY SERVICES

Statement of Net Position
At June 30, 2015
(With Comparative Totals for 2014)

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,857,580	$ 7,298,563
Investment in common stock	22,533	22,041
Accounts receivable, less allowance for uncollectibles	1,379,885	1,297,827
Due from other governments	31,082	98,617
Prepaid items	151,936	26,730
Total current assets	$ 9,443,016	$ 8,743,778
Restricted Assets:		
Cash and cash equivalents	$ 126,719	$ 111,188
Accounts receivable	969	200
Client funds	26,755	32,669
Total restricted assets	$ 154,443	$ 144,057
Other Assets:		
Net pension asset	$ 698,018	$ -
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 10,304,731	$ 9,970,155
Total assets	$ 20,600,208	$ 18,857,990
Deferred Outflows of Resources		
Pension contributions subsequent to measurement date	$ 578,992	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,095,438	$ 1,075,997
Compensated absences	1,066,763	1,007,413
Security and escrow deposits	8,126	8,790
Long-term debt, current portion	43,336	41,588
Total current liabilities	$ 2,213,663	$ 2,133,788
Liabilities Payable from Restricted Assets:		
Accounts payable and accrued expenses	$ 969	$ 2,700
Client funds	26,755	32,669
Security deposits and other	6,984	4,638
Total liabilities payable from restricted assets	$ 34,708	$ 40,007
Long-term Liabilities:		
Long-term debt, less current portion	$ 1,660,927	$ 1,704,259
Total liabilities	$ 3,909,298	$ 3,878,054
Deferred Inflows of Resources		
Items related to measurement of net pension asset	$ 545,570	$ -
Net Position		
Net investment in capital assets	$ 8,600,468	$ 8,224,308
Restricted	877,320	359,836
Unrestricted	7,246,544	6,395,792
Total net position	$ 16,724,332	$ 14,979,936

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

PIEDMONT COMMUNITY SERVICES

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015
(With Comparative Totals for 2014)

	2015	2014
Operating revenue:		
Net patient service revenue	$ 12,643,982	$ 12,688,200
Operating expenses:		
Salaries and benefits	$ 14,086,642	$ 14,452,541
Staff development	91,270	80,210
Facility	680,928	893,732
Supplies	412,774	544,095
Travel	577,569	583,942
Contractual and consulting	2,695,617	2,470,844
Depreciation	568,227	566,703
Other	219,240	243,083
Total operating expenses	$ 19,332,267	$ 19,835,150
Operating loss	$ (6,688,285)	$ (7,146,950)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	$ 5,247,501	$ 4,748,892
Federal government	1,643,526	1,794,999
Local governments	386,963	335,697
Rent	261,483	238,553
Investment income	3,697	6,130
Other	420,443	404,095
Interest expense	(72,085)	(72,917)
Net nonoperating income	$ 7,891,528	$ 7,455,449
Change in net position	$ 1,203,243	$ 308,499
Net position, beginning of year	$ 14,979,936	$ 14,671,437
Restatement for GASB 68 implementation	541,153	-
Net position, beginning of year, as restated	$ 15,521,089	$ 14,671,437
Net position, end of year	$ 16,724,332	$ 14,979,936

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

PIEDMONT COMMUNITY SERVICES

Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for 2014)

		2015		2014
Cash flows from operating activities:				
Receipts from customers	$	12,562,180	$	12,580,871
Payments to suppliers		(4,838,730)		(4,577,392)
Payments to and/or for employees		(14,162,932)		(14,335,167)
Total cash flows provided by (used for) operating activities	$	(6,439,482)	$	(6,331,688)
Cash flows from noncapital financing activities:				
Government grants	$	7,345,525	$	6,852,450
Other		681,772		641,044
Total cash flows provided by (used for) noncapital financing activities	$	8,027,297	$	7,493,494
Cash flows from capital and related financing activities:				
Acquisition of capital assets	$	(1,013,217)	$	(622,368)
Proceeds from sale of property		109,922		-
Principal payments on mortgages and loans payable		(41,584)		(39,908)
Payments for interest		(72,085)		(72,917)
Cash flows provided by (used for) capital and related financing activities	$	(1,016,964)	$	(735,193)
Cash flows from investing activities:				
Investment income	$	3,697	$	6,130
Net increase (decrease) in cash and cash equivalents	$	574,548	$	432,743
Cash and cash equivalents, beginning of year		7,409,751		6,977,008
Cash and cash equivalents, end of year	$	7,984,299	$	7,409,751
Cash and cash equivalents:				
Unrestricted	$	7,857,580	$	7,298,563
Restricted		126,719		111,188
Total	$	7,984,299	$	7,409,751
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating Income (loss):	$	(6,688,285)	$	(7,146,950)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation		568,227		566,703
Pension contributions subsequent to measurement date		(578,992)		-
Pension expense per GASB 68 calculation		388,705		-
Changes in operating assets and liabilities:				
Accounts receivable and due from other governments		(81,858)		(136,290)
Prepaid items		(125,206)		16,498
Accounts payable and accrued expenses		19,241		309,947
Security and escrow deposits		(664)		275
Compensated absences		59,350		58,129
Cash flows provided by (used for) operating activities	$	(6,439,482)	$	(6,331,688)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

The Organization operates as an agent for the Counties of Henry, Franklin, Patrick, and the City of Martinsville in the establishment and operation of community mental health, intellectually disabled and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Organization provides a system of community mental health and intellectually disabled and substance abuse services which relate to and are integrated with existing and planned programs.

B. Financial Reporting Entity:

For financial reporting purposes, in conformance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the Organization includes all organizations which exclusively benefit the Organization. All component units included in these financial statements have years which end on June 30.

Blended Component Units:

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

C. Financial Statement Presentation:

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

D. Basis of Accounting:

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

E. Use of Estimates:

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

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

F. Cash and Cash Equivalents:

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

G. Investments:

Investments are reported at fair value.

H. Restricted Assets:

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

I. Client Accounts Receivable and Service Fee Revenue:

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

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

The vast majority of fees collected result from Medicaid billings. An allowance for doubtful client and other accounts has been estimated by management to approximate $252,022 at June 30, 2015 and $263,833 at June 30, 2014.

J. Capital Assets:

Capital assets acquired which equal or exceed $500 and have a useful life of more than 2 years are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift.

Estimated useful lives of capital assets are as follows:

Buildings	25 to 40 years
Improvements to buildings	10 to 40 years
Furniture, fixtures, equipment and vehicles	5 years

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

K. Deferred Outflows/Inflows of Resources:

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

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

L. Pensions:

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

M. Compensated Absences:

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

N. Net Position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

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

O. Net Position Flow Assumption:

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

P. Operating and Nonoperating Revenues and Expenses:

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

Q. Rental Income:

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

R. Budgetary Accounting:

The Organization follows these procedures in establishing its budgets:

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

The Organization's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second quarter. The final quarterly report is generally due by August 31 (unless extended), following the end of the fiscal year.

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

S. Comparative Totals:

Comparative amounts are presented for informational purposes only.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

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

Restricted Deposits:

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

Investments:

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

The following is a summary of cash and cash equivalents:

	PCS	Component Units	Total	Total 2014
Cash on hand and petty cash	$ 5,000	$ -	$ 5,000	$ 4,900
Deposits with banks	7,314,516	57,817	7,372,333	6,798,564
Investments-LGIP	606,966	-	606,966	606,287
Total	$ 7,926,482	$ 57,817	$ 7,984,299	$ 7,409,751

Custodial Credit Risk (Investments):

The Organization's investments in Common Stock consist of publicly held corporations and are held by the Organization or its broker in the Organization's name. These securities were donated to the Organization and are valued at $22,533 at June 30, 2015 and $22,041 at June 30, 2014.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Credit Risk of Debt Securities:

The Organization's investment policies allow the investment of funds in money market funds, repurchase agreements, the Commonwealth of Virginia Local Government Investment Pool, U.S. Treasury and agency securities and non-negotiable certificates of deposit. The Organization also accepts donations of equity securities. The Organization's rated debt investments at June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investments

Rated Debt Investments Value	Fair Quality Ratings
	AAAm
Virginia Local Government Investment Pool	$ 606,966

The fair value of positions in the external investment pool (Local Government Investment Pool) is the same value as the pool shares. The pool is not SEC registered; therefore, regulatory oversight rests with the Treasurer of Virginia.

NOTE 3 - ACCOUNTS RECEIVABLE:

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

	2015	2014
Virginia Department of Medical Assistance Services (Medicaid)	$ 1,194,290	$ 1,114,351
Direct client, third party and other	437,617	447,309
Total	$ 1,631,907	$ 1,561,660
Less: Allowance for uncollectibles	(252,022)	(263,833)
Net accounts receivable	$ 1,379,885	$ 1,297,827

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

NOTE 4 - DUE FROM OTHER GOVERNMENTS:

The Organization has amounts due from other governments as follows:

	PCS	Component Units	Total	2014 Total
Commonwealth of Virginia				
Tobacco Grant	$ 13,730	$ -	$ 13,730	$ 6,298
SIG grant	-	-	-	42,095
Healthy Families	10,010	-	10,010	6,530
Drug-Free Communities Grant	-	-	-	23,421
Others	7,342	-	7,342	20,273
Total	$ 31,082	$ -	$ 31,082	$ 98,617

NOTE 5 - CAPITAL ASSETS:

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 1,024,686	$ -	$ 109,922	$ 914,764
Construction in progress	291,845	9,375	291,845	9,375
Total capital assets not being depreciated	$ 1,316,531	$ 9,375	$ 401,767	$ 924,139
Capital assets being depreciated:				
Building and improvements	$ 12,041,988	$ 1,031,888	$ -	$ 13,073,876
Furnishings and equipment	1,970,086	264,214	99,886	2,134,414
Total capital assets being depreciated	$ 14,012,074	$ 1,296,102	$ 99,886	$ 15,208,290
Accumulated depreciation				
Building and improvements	$ 3,883,987	$ 413,374	$ -	$ 4,297,361
Furnishings and equipment	1,474,463	154,853	98,979	1,530,337
Total accumulated depreciation	$ 5,358,450	$ 568,227	$ 98,979	$ 5,827,698
Net capital assets being depreciated	$ 8,653,624	$ 727,875	$ 907	$ 9,380,592
Total net capital assets	$ 9,970,155	$ 737,250	$ 402,674	$ 10,304,731

Total depreciation expense was $568,227 for 2015 and $566,703 for 2014.

NOTE 6 - LEASE COMMITMENTS:

The Organization leases office space and other facilities from various lessors. The lease terms range from monthly to one year.

Total rent expense for the years ended June 30, 2015 and 2014 totaled $67,056 and $72,183, respectively.

NOTE 7 - COMPENSATED ABSENCES:

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

Organization employees earn leave based on length of service. The Organization has outstanding accrued leave pay totaling $1,066,763 at June 30, 2015 and $1,007,413 at June 30, 2014. All of the compensated absence amounts are deemed to be current. Compensated absences increased by $59,350 from 2014 to 2015.

NOTE 8 – LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Organization for the year ended June 30, 2015:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Long-Term Obligations:				
Notes payable	$ 1,745,847	$ -	$ 41,584	$ 1,704,263

Details of long-term obligations at June 30, 2015 were as follows:

	Balance	Current Portion
$2,161,300 note payable to USDA; interest only through May 22, 2009, payable in monthly installments of $9,402 beginning June 22, 2009 (including principal and interest) through February 22, 2039, interest at 4.125%, secured by property in Rocky Mount, Virginia	$ 1,704,263	$ 43,336
Total notes payable	$ 1,704,263	$ 43,336

The Organization is in compliance with federal arbitrage regulations.

NOTE 8 – LONG-TERM OBLIGATIONS: (continued)

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

Year Ending June 30,	Principal	Interest
2016	$ 43,336	$ 69,488
2017	45,158	67,666
2018	47,057	65,767
2019	49,035	63,789
2020	51,096	61,728
2021-2025	289,565	274,555
2026-2030	355,767	208,353
2031-2035	437,105	127,015
2036-2039	386,144	30,848
Total	$ 1,704,263	$ 969,209

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Organization participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

The Organization has a line of credit with Carter Bank and Trust in the amount of $800,000. The Organization did not draw on the line during fiscal year 2015 or fiscal 2014.

NOTE 10 – SELF-INSURANCE / RISK MANAGEMENT:

General and Property Insurance:

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

Employee Health Insurance:

In fiscal year 2009 the Organization established a self-insurance plan for its employee health program. The program is administered by a private insurance carrier. Premium payments are based on the number of employees insured and benefits.

Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued based upon history and estimates from the insurance carrier. The change in the estimated claims liability recorded in accounts payable and accrued liabilities for fiscal years 2015, 2014 and 2013 is summarized below.

Fiscal Year	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
2015	$ 248,286	$ 1,056,785	$ 1,177,121	$ 127,950
2014	95,532	2,135,936	1,983,182	248,286
2013	44,263	982,487	931,218	95,532

NOTE 11 - PENSION PLAN:

Plan Description

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

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

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

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

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

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

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

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contributions Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

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

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 11 - PENSION PLAN: (continued)

Plan Description (continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td>
<td>Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</td>
<td>Disability Coverage
Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td>
</tr>
<tr>
<td>Purchase of Prior Service
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</td>
<td>Purchase of Prior Service
Same as Plan 1.</td>
<td>Purchase of Prior Service
<u>Defined Benefit Component:</u>
Same as Plan 1, with the following exceptions:
• Hybrid Retirement Plan members are ineligible for ported service.
• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

<u>Defined Contribution Component:</u>
Not applicable.</td>
</tr>
</table>

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 11 - PENSION PLAN: (continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	7
Non-vested inactive members	44
Inactive members active elsewhere in VRS	16
Total inactive members	67
Active members	232
Total covered employees	311

Contributions

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

Piedmont Community Services' contractually required contribution rate for the year ended June 30, 2015 was 6.35% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Organization were $578,992 and $846,014 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Asset

The Organization's net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

NOTE 11 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Organization's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 11 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

This space intentionally left blank.

NOTE 11 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

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

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

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

NOTE 11 - PENSION PLAN: (continued)

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2013	$ 7,453,959	$ 7,149,098	$ 304,861
Changes for the year:			
Service cost	$ 1,003,846	$ -	$ 1,003,846
Interest	516,190	-	516,190
Contributions - employer	-	846,014	(846,014)
Contributions - employee	-	460,047	(460,047)
Net investment income	-	1,222,332	(1,222,332)
Benefit payments, including refunds of employee contributions	(159,644)	(159,644)	-
Administrative expenses	-	(5,542)	5,542
Other changes	-	64	(64)
Net changes	$ 1,360,392	$ 2,363,271	$ (1,002,879)
Balances at June 30, 2014	$ 8,814,351	$ 9,512,369	$ (698,018)

NOTE 11 - PENSION PLAN: (continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Piedmont Community Services Net Pension Liability (Asset)	$ 682,733	$ (698,018)	$ (1,820,612)

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

For the year ended June 30, 2015, the Organization recognized pension expense of $388,705. At June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 545,750
Employer contributions subsequent to the measurement date	578,992	-
Total	$ 578,992	$ 545,750

$578,992 reported as deferred outflows of resources related to pensions resulting from the Organization's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Asset in the year ended June 30, 2016. 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 ended June 30	
2016	$ (136,392)
2017	(136,392)
2018	(136,392)
2019	(136,394)
Thereafter	-

NOTE 12 - LOCAL FUNDS:

The following is a schedule, by locality, of local funding:

	2015	2014
Martinsville City	$ 75,498	$ 75,498
Henry County	128,848	128,848
Patrick County	43,479	42,213
Franklin County	138,838	88,838
Town of Rocky Mount	300	300
Total	$ 386,963	335,697

NOTE 13 - NET PATIENT SERVICE REVENUES:

Net patient service revenues were derived from the following sources:

	2015	2014
Medicaid	$ 11,478,487	$ 11,602,648
Direct client	457,921	471,410
Other	707,574	614,142
Total	$ 12,643,982	$ 12,688,200

NOTE 14 - RENTAL INCOME:

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

	2015	2014
Rentals received	$ 261,483	$ 238,553
Cost of leased assets	2,700,482	2,697,684
Accumulated depreciation	941,706	857,474
Depreciation expense	84,232	86,016

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

NOTE 15 - RESTRICTED NET POSITION:

Restricted net position consists of: (1) the net position of the component units less the cost of capital assets net of related debt or $50,833, (2) unexpended federal asset forfeiture funds of $125,454, and (3) other unexpended grant funds of $701,033. The net position is considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization, state program restrictions on the use of certain funds, and unexpended funds from a private grantor.

NOTE 16 – ADOPTION OF ACCOUNTING PRINCIPLES:

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* **and Statement No. 71,** *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68***:**

The Organization implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a $541,153 restatement of net position.

In the year of implementation of GASB 68, prior year comparative information was unavailable. Therefore, the 2014 information has not been restated to reflect the requirements of GASB 68 and 71.

NOTE 17 – SUBSEQUENT EVENT:

In July 2015, $850,000 was received for the PACT program.

In August 2015, a $227,000 grant was awarded to open a 2nd CIT assistance center in collaboration with Franklin County law enforcement.

NOTE 18 – UPCOMING PRONOUNCEMENTS:

Statement No. 72, *Fair Value Measurement and Application,* amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement.* This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

- Required Supplementary Information -

PIEDMONT COMMUNITY SERVICES

Schedule of Components of and Changes in Net Pension Asset and Related Ratios
Year Ended June 30, 2015

		2014
Total pension liability		
Service cost	$	1,003,846
Interest		516,190
Benefit payments, including refunds of employee contributions		(159,644)
Net change in total pension liability	$	1,360,392
Total pension liability - beginning		7,453,959
Total pension liability - ending (a)	$	8,814,351
Plan fiduciary net position		
Contributions - employer	$	846,014
Contributions - employee		460,047
Net investment income		1,222,332
Benefit payments, including refunds of employee contributions		(159,644)
Administrative expense		(5,542)
Other		64
Net change in plan fiduciary net position	$	2,363,271
Plan fiduciary net position - beginning		7,149,098
Plan fiduciary net position - ending (b)	$	9,512,369
Organization's net pension liability (asset) - ending (a) - (b)	$	(698,018)
Plan fiduciary net position as a percentage of the total pension liability		107.92%
Covered-employee payroll	$	8,605,627
Organization's net pension asset as a percentage of covered-employee payroll		-8.11%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

PIEDMONT COMMUNITY SERVICES

Schedule of Employer Contributions
Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2015	$ 578,992	$ 578,992	$ -	$ 9,117,984	6.35%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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 and not covered by enhanced hazardous duty benefits. 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:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

- Supplementary Information -

Combining Financial Statements

PIEDMONT COMMUNITY SERVICES

Combining Statement of Net Position
At June 30, 2015

Assets	Piedmont Community Services	Scuffling Hill Housing, Inc.
Current Assets:		
Cash and cash equivalents	$ 7,857,580	$ -
Investment in common stock	22,533	-
Accounts receivable, less allowance for uncollectibles	1,379,885	-
Due from other governments	31,082	-
Prepaid items	151,936	-
Total current assets	$ 9,443,016	$ -
Restricted Assets:		
Cash and cash equivalents	$ 68,902	$ 14,250
Accounts receivable	-	-
Client funds	26,755	-
Total restricted assets	$ 95,657	$ 14,250
Other Assets:		
Net pension asset	$ 698,018	$ -
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 8,762,410	$ 306,880
Total assets	$ 18,999,101	$ 321,130
Deferred Outflows of Resources		
Pension contributions subsequent to measurement date	$ 578,992	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,095,438	$ -
Compensated absences	1,066,763	-
Security and escrow deposits	8,126	-
Long-term debt, current portion	43,336	-
Total current liabilities	$ 2,213,663	$ -
Liabilities Payable from Restricted Assets:		
Accounts payable and accrued expenses	$ -	$ -
Client funds	26,755	-
Security deposits and other	-	800
Total liabilities payable from restricted assets	$ 26,755	$ 800
Long-term Liabilities:		
Long-term debt, less current portion	$ 1,660,927	$ -
Total liabilities	$ 3,901,345	$ 800
Deferred Inflows of Resources		
Items related to measurement of net pension asset	$ 545,570	$ -
Net Position		
Net investment in capital assets	$ 7,058,147	$ 306,880
Restricted	826,487	13,450
Unrestricted	7,246,544	-
Total net position	$ 15,131,178	$ 320,330

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ 7,857,580
-	-	-	-	22,533
-	-	-	-	1,379,885
-	-	-	-	31,082
-	-	-	-	151,936
$ -	$ -	$ -	$ -	$ 9,443,016
$ 18,849	$ 8,225	$ 16,493	$ -	$ 126,719
-	-	969	-	969
-	-	-	-	26,755
$ 18,849	$ 8,225	$ 17,462	$ -	$ 154,443
$ -	$ -	$ -	$ -	$ 698,018
$ 366,770	$ 383,768	$ 484,903	$ -	$ 10,304,731
$ 385,619	$ 391,993	$ 502,365	$ -	$ 20,600,208
$ -	$ -	$ -	$ -	$ 578,992
$ -	$ -	$ -	$ -	$ 1,095,438
-	-	-	-	1,066,763
-	-	-	-	8,126
-	-	-	-	43,336
$ -	$ -	$ -	$ -	$ 2,213,663
$ -	$	$ 969	$ -	$ 969
-	-	-	-	26,755
1,294	1,063	3,827	-	6,984
$ 1,294	$ 1,063	$ 4,796	$ -	$ 34,708
$ -	$ -	$ -	$ -	$ 1,660,927
$ 1,294	$ 1,063	$ 4,796	$ -	$ 3,909,298
$ -	$ -	$ -	$ -	$ 545,570
$ 366,770	$ 383,768	$ 484,903	$ -	$ 8,600,468
17,555	7,162	12,666	-	877,320
-	-	-	-	7,246,544
$ 384,325	$ 390,930	$ 497,569	$ -	$ 16,724,332

PIEDMONT COMMUNITY SERVICES

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015

	Piedmont Community Services	Scuffling Hill Housing, Inc.
Operating revenue:		
Net patient service revenue	$ 12,643,982	$ -
Operating expenses:		
Salaries and benefits	$ 14,086,642	$ -
Staff development	91,270	-
Facility	571,886	40,144
Supplies	412,774	-
Travel	577,569	-
Contractual and consulting	2,695,617	-
Depreciation	509,061	12,052
Other	219,240	-
Total operating expenses	$ 19,164,059	$ 52,196
Operating (loss)	$ (6,520,077)	$ (52,196)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	$ 5,247,501	$ -
Federal government	1,643,526	-
Local governments	386,963	-
Rent	145,836	30,682
Investment income	3,467	55
Other	420,443	10,194
Interest expense	(72,085)	-
Net nonoperating income	$ 7,775,651	$ 40,931
Change in net position	$ 1,255,574	$ (11,265)
Net position, beginning of year	$ 13,334,451	$ 331,595
Restatement for GASB 68 implementation	541,153	-
Net position, beginning of year, as restated	$ 13,875,604	$ 331,595
Net position, end of year	$ 15,131,178	$ 320,330

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ 12,643,982
$ -	$ -	$ -	$ -	$ 14,086,642
-	-	-	-	91,270
29,885	28,316	28,080	(17,383)	680,928
-	-	-	-	412,774
-	-	-	-	577,569
-	-	-	-	2,695,617
16,253	15,040	15,821	-	568,227
-	-	-	-	219,240
$ 46,138	$ 43,356	$ 43,901	$ (17,383)	$ 19,332,267
$ (46,138)	$ (43,356)	$ (43,901)	$ 17,383	$ (6,688,285)
$ -	$ -	$ -	$ -	$ 5,247,501
-	-	-	-	1,643,526
-	-	-	-	386,963
29,885	27,000	28,080	-	261,483
88	28	59	-	3,697
4,086	1,598	1,505	(17,383)	420,443
-	-	-	-	(72,085)
$ 34,059	$ 28,626	$ 29,644	$ (17,383)	$ 7,891,528
$ (12,079)	$ (14,730)	$ (14,257)	$ -	$ 1,203,243
$ 396,404	$ 405,660	$ 511,826	$ -	$ 14,979,936
-	-	-	-	541,153
$ 396,404	$ 405,660	$ 511,826	$ -	$ 15,521,089
$ 384,325	$ 390,930	$ 497,569	$ -	$ 16,724,332

PIEDMONT COMMUNITY SERVICES

Combining Statement of Cash Flows
Year Ended June 30, 2015

		Piedmont Community Services		Scuffling Hill Housing, Inc.
Cash flows from operating activities:				
Receipts from customers	$	12,562,180	$	-
Payments to suppliers		(4,729,688)		(40,144)
Payments to and/or for employees		(14,162,932)		-
Total cash flows provided by (used for) operating activities	$	(6,330,440)	$	(40,144)
Cash flows from noncapital financing activities:				
Government grants	$	7,345,525	$	-
Other		566,279		40,714
Total cash flows provided by (used for) noncapital financing activities	$	7,911,804	$	40,714
Cash flows from capital and related financing activities:				
Acquisition of capital assets	$	(1,010,779)	$	-
Proceeds from sale of property		109,922		-
Principal payments on mortgages and loans payable		(41,584)		-
Payments for interest		(72,085)		-
Cash flows provided by (used for) capital and related financing activities	$	(1,014,526)	$	-
Cash flows from investing activities:				
Investment income	$	3,467	$	55
Cash flows provided by (used for) investing activities	$	3,467	$	55
Net increase (decrease) in cash and cash equivalents	$	570,305	$	625
Cash and cash equivalents, beginning of year		7,356,177		13,625
Cash and cash equivalents, end of year	$	7,926,482	$	14,250
Cash and cash equivalents:				
Unrestricted	$	7,857,580	$	-
Restricted		68,902		14,250
Total	$	7,926,482	$	14,250
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$	(6,520,077)	$	(52,196)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:				
Depreciation		509,061		12,052
Pension contributions subsequent to measurement date		(578,992)		-
Pension expense per GASB 68 calculation		388,705		-
Changes in operating assets and liabilities:				
Accounts receivable and due from other governments		(82,058)		-
Prepaid items		(125,206)		-
Accounts payable and accrued expenses		19,441		-
Security and escrow deposits		(664)		-
Compensated absences		59,350		-
Cash flows provided by (used for) operating activities	$	(6,330,440)	$	(40,144)

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ 12,562,180
(29,885)	(28,316)	(28,080)	17,383	(4,838,730)
-	-	-	-	(14,162,932)
$ (29,885)	$ (28,316)	$ (28,080)	$ 17,383	$ (6,439,482)
$ -	$ -	$ -	$ -	$ 7,345,525
33,972	28,599	29,591	(17,383)	681,772
$ 33,972	$ 28,599	$ 29,591	$ (17,383)	$ 8,027,297
$ (2,438)	$ -	$ -	$ -	$ (1,013,217)
-	-	-	-	109,922
-	-	-	-	(41,584)
-	-	-	-	(72,085)
$ (2,438)	$ -	$ -	$ -	$ (1,016,964)
$ 88	$ 28	$ 59	$ -	$ 3,697
$ 88	$ 28	$ 59	$ -	$ 3,697
$ 1,737	$ 311	$ 1,570	$ -	$ 574,548
17,112	7,914	14,923	-	7,409,751
$ 18,849	$ 8,225	$ 16,493	$ -	$ 7,984,299
$ -	$ -	$ -	$ -	$ 7,857,580
18,849	8,225	16,493	-	126,719
$ 18,849	$ 8,225	$ 16,493	$ -	$ 7,984,299
$ (46,138)	$ (43,356)	$ (43,901)	$ 17,383	$ (6,688,285)
16,253	15,040	15,821	-	568,227
-	-	-	-	(578,992)
-	-	-	-	388,705
200	-	-	-	(81,858)
-	-	-	-	(125,206)
(200)	-	-	-	19,241
-	-	-	-	(664)
-	-	-	-	59,350
$ (29,885)	$ (28,316)	$ (28,080)	$ 17,383	$ (6,439,482)

- Compliance -

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

To the Board of Directors
Piedmont Community Services
Martinsville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Piedmont Community Services, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Piedmont Community Services' basic financial statements and have issued our report thereon dated November 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Piedmont Community Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Piedmont Community Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Piedmont Community Services' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Piedmont Community Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Piedmont Community Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Piedmont Community Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 23, 2015

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
Piedmont Community Services
Martinsville, Virginia

Report on Compliance for Each Major Federal Program

We have audited Piedmont Community Services' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Piedmont Community Services' major federal programs for the year ended June 30, 2015. Piedmont Community Services' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Piedmont Community Services' financial statements include the operations of component unit organizations Scuffling Hill Housing, Inc.; Maynor Street Housing, Inc.; Pebble Creek Housing, Inc.; and West Church Street Housing Inc., which received, in the aggregate, a total of $1,848,961 in federal awards which is not included the Schedule of Federal Awards during the year ended June 30, 2015. Our audit, described below, did not include the operations of the above component units because each of the component units issues separate financial statements, and audits in accordance with OMB Circular A-133 are performed at the component unit level, where applicable.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Piedmont Community Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Piedmont Community Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Piedmont Community Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year June 30, 2015.

Report on Internal Control over Compliance

Management of Piedmont Community Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Piedmont Community Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Piedmont Community Services' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 23, 2015

PIEDMONT COMMUNITY SERVICES

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	**Federal CFDA Number**	**Pass-Through Entity Identification Number**	**Expenditures**
Department of Agriculture:			
Virginia Department of Agriculture:			
Pass-through payments:			
Child and Adult Care Food Program	10.558	Not Available	$ 51,924
Community Facilities Loans and Grants	10.766	Not Available	50,000
Total Department of Agriculture			$ 101,924
Department of the Treasury:			
Pass-through payments:			
City of Martinsville, Virginia			
Asset Forfeiture Funds - Abbott Laboratories Settlement	21.000	Not Available	$ 32,684
Department of Justice:			
Pass-through payments:			
Virginia Department of Criminal Justice Services			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not Available	$ 27,152
Department of Health and Human Services:			
Direct payments:			
Drug Free Communities Support Program Grant	93.276	Not Applicable	$ 36,882
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Temporary assistance for needy families	93.558	Not Available	119,120
Block Grants for Community Mental Health Services	93.958	Not Available	250,226
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Available	986,983
Total Department of Health and Human Services			$ 1,393,211
Department of Education:			
Pass-through payments:			
Virginia Department of Education:			
Special Education - Grants for Infants and Families	84.181	Not Available	$ 67,535
Total expenditures of federal awards			$ 1,622,506

Notes to the Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Piedmont Community Services under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Piedmont Community Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Piedmont Community Services.

Note B - Summary of Significant Accounting Policies:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for States, Local and Indian Tribal Governments wherein certain types of expenditures are not allowable or are limited to reimbursement.
(2) Pass-through entity identifying numbers are presented where available.

Note C - Item Not Included in the Schedule:

U.S.D.A. Rural Development loan balance at June 30, 2015 for which only the payment of debt service is the primary compliance requirement.	$ 1,704,263

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

Total expenditures of Federal Awards	$ 1,622,506
Adjustments:	
SAPT Federal Balance	53,704
Expense of Asset Forfeiture Funds - Abbott Laboratories Settlement Rec'd in Prior Year	(32,684)
Total federal revenue per financial statements	$ 1,643,526

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.959	Block Grants for the Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs	$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

PIEDMONT COMMUNITY SERVICES

Schedule of Prior Year Findings
Year Ended June 30, 2015

There were no items reported for the year ended June 30, 2014.