

**DANVILLE-PITTSYLVANIA
COMMUNITY SERVICES**

**FINANCIAL REPORT
(Audited)**

JUNE 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Danville-Pittsylvania Community Services, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Danville-Pittsylvania Community Services, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8–19 and certain pension information on pages 45 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Danville-Pittsylvania Community Services' basic financial statements. The accompanying Schedules 4 through 6 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U. S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The above schedules 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 schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental information sections Schedules 4 through 6 have not been subjected to the auditing procedures applied in the audit of the basic financial statements; and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the Danville-Pittsylvania Community Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Danville-Pittsylvania Community Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Danville-Pittsylvania Community Services' internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 14, 2017

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Danville-Pittsylvania Community Services
Danville, Virginia 24541

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Danville-Pittsylvania Community Services, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which comprise Danville-Pittsylvania Community Services' basic financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 14, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

To the Board of Directors
Danville-Pittsylvania Community Services
Danville, Virginia 24541

Report on Compliance for Each Major Federal Program

We have audited Danville-Pittsylvania Community Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Danville-Pittsylvania Community Services' major federal programs for the year ended June 30, 2017. Danville-Pittsylvania Community Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Danville-Pittsylvania Community Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Danville-Pittsylvania Community Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Danville-Pittsylvania Community Services, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 14, 2017

INDEPENDENT AUDITORS' COMMENTS ON RESOLUTION OF
PRIOR YEAR AUDIT FINDINGS

To The Board of Directors
Danville-Pittsylvania Community Services

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

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

The following discussion and analysis of Danville-Pittsylvania Community Services' (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal years ended June 30, 2017 (FY2017) and June 30, 2016 (FY2016). The Agency's financial statements are reported on the full accrual basis as required by Governmental Accounting Standards Board (GASB) 34. Due to the requirements of GASB Statements 14 and 61, 'The Financial Reporting Entity' and GASB Statement 39, 'Determining Whether Certain Organizations are Component Units', the financial statements for Piney Ridge Apartments Corporation, Piney Ridge Apartments Corporation II, Ashlawn View, Inc. and Bellevue, Inc. are blended with the Agency. GASB Statement 39 requires organizations that are legally separate, tax-exempt entities and that meet all of the following criteria to be presented as component units. These criteria include (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, (b) the primary government has the ability to otherwise access a majority of the economic resources held by the separate organization, and (c) the economic resources received or held by an individual organization that the specific primary government has the ability to otherwise access are significant to that primary government. Each component unit agency is tax exempt under 501(c)(3) of the Internal Revenue Code. The Piney Ridge Apartments Corporation provide apartments and Ashlawn View, Inc. provides a group home to house individuals receiving services from the Agency. Bellevue, Inc. provides DPCS, as the sole tenant, fixed assets (land, buildings and improvements, and furniture and equipment) totaling \$5,797,997 and \$5,586,591 less accumulated depreciation of \$2,658,310 and \$2,521,498 for a net value of \$3,139,687 and \$3,065,093 at December 31, 2016 and December 31, 2015 respectively. Furthermore, Joplin Street Properties, LLC was formed in FY2017 as a disregarded entity under the sole control of the Agency and as such the financial amounts are blended with the Agency.

Management Discussion and Analysis for the Agency Only- Not Including GASB Statement 68 for Pension Amounts Related to the Virginia Retirement System

Basic Financial Statements: The basic financial statements for the Agency consist of the Statement of Net Assets (Balance Sheet), Statement of Revenues, Expenses, and Changes in Net Assets (Income Statement) and the Statement of Cash Flows. The following are condensed Financial Statements which present the changes in the accounts from FY2016 to FY2017 for analysis purposes:

<u>Summary Statement of Net Assets Comparison</u>					
	<u>FY2017</u>	<u>FY2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY2015</u>
<u>Assets:</u>					
Cash and cash equivalents	\$ 11,035,213	\$ 11,247,321	\$ (212,108)	-1.89%	\$ 10,202,207
Prepaid expenses	43,588	49,306	(5,718)	-11.60%	59,197
Fees receivable (net)	1,459,611	1,179,007	280,604	23.80%	1,227,430
Due from other governments	147,151	196,247	(49,096)	-25.02%	248,909
Notes receivable- consumers	32,128	43,761	(11,633)	-26.58%	66,859
Rental deposits	10,325	65,825	(55,500)	-84.31%	14,325
Restricted cash held for consumers	71,714	64,869	6,845	10.55%	57,543
Equip., Land & Land Improvements (net)	3,717,701	3,941,352	(223,651)	-5.67%	3,315,543
<u>Liabilities:</u>					
Accounts payable	\$ 514,705	\$ 445,261	\$ 69,444	15.60%	\$ 611,129
Accrued payroll & other liabilities	785,376	618,756	166,620	26.93%	507,724
Consumer deposits	71,714	64,869	6,845	10.55%	57,543
Deferred revenue	2,251,649	2,769,405	(517,756)	-18.70%	1,744,597
Accrued leave	1,219,037	1,298,924	(79,887)	-6.15%	1,278,131
Accrued postemployment health	486,571	505,116	(18,545)	-3.67%	527,977
<u>Net Assets:</u>					
Investments in fixed assets	\$ 3,717,701	\$ 3,941,352	\$ (223,651)	-5.67%	\$ 3,315,543
Unrestricted but designated	126,064	146,145	(20,081)	-13.74%	189,274
Unrestricted net assets	7,344,614	6,997,860	346,754	4.96%	6,960,095

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>					
			Dollar	Percent	
	FY2017	FY2016	Change	Change	FY2015
<u>Operating Revenues:</u>					
Net consumer services revenue	\$ 9,660,677	\$ 8,963,345	\$ 697,332	7.78%	\$ 8,684,760
Other revenue	294,694	268,063	26,631	9.93%	245,914
<u>Operating Expenses:</u>					
Personnel	\$ 14,278,764	\$ 13,334,385	\$ 944,379	7.08%	\$ 12,726,716
Staff development	170,568	148,525	22,043	14.84%	146,397
Facilities	1,438,824	1,460,622	(21,798)	-1.49%	1,446,505
Supplies/equipment maintenance	824,305	885,441	(61,136)	-6.90%	797,187
Travel	169,440	140,080	29,360	20.96%	118,251
Consultant/contract	1,659,249	1,615,186	44,063	2.73%	1,372,187
Depreciation	410,164	283,317	126,847	44.77%	246,355
Bad debt expense	179,586	273,859	(94,273)	-34.42%	141,859
<u>Non-operating Revenues/(Expenses):</u>					
Appropriations from State gov't	\$ 7,628,046	\$ 7,394,126	\$ 233,920	3.16%	\$ 7,522,535
Appropriations from Federal gov't	1,326,526	1,214,032	112,494	9.27%	1,214,054
Appropriations from Local sources	919,851	877,578	42,273	4.82%	830,210
Gain/(Loss) on equipment disposal	-	-	-	-	21,200
Contributions (to)/from Related Organizations	(639,347)	-	(639,347)	-	-
Interest income	43,475	44,716	(1,241)	-2.78%	43,058
Total Change in Net Assets	\$ 103,022	\$ 620,445	\$ (517,423)	-83.40%	\$ 1,566,274

<u>Summary Statement of Cash Flows Comparison</u>					
			Dollar	Percent	
	FY2017	FY2016	Change	Change	FY2015
<u>Cash Flows from Operating Activities:</u>					
Cash received from client services	\$ 9,208,846	\$ 8,759,078	\$ 449,768	5.13%	\$ 8,476,856
Other unrestricted operating revenue	299,894	298,912	982	0.33%	301,746
Cash payments for personnel	(13,227,185)	(12,943,925)	(283,260)	2.19%	(12,447,390)
Cash payments for supplies/other operating needs	(5,510,424)	(4,444,181)	(1,066,243)	23.99%	(3,535,589)
<u>Cash Flows from Non-capital Financing Activities:</u>					
Appropriations from State gov't	7,167,687	8,436,867	(1,269,180)	-15.04%	7,022,681
Appropriations from Local gov't	623,773	567,064	56,709	10.00%	550,542
Appropriations from Federal gov't	1,325,621	1,235,707	89,914	7.28%	1,156,503
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Acquisition of capital assets	(143,795)	(909,124)	765,329	-84.18%	(670,945)
Proceeds from sale of assets	-	-	-	-	21,200
<u>Cash Flows from Investing Activities:</u>					
Interest Income	43,475	44,716	(1,241)	-2.78%	43,058
Net increase (decrease) in cash and cash equivalents	\$ (212,108)	\$ 1,045,114	\$ (1,257,222)	-120.30%	\$ 918,662

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

Financial Analysis

For the fiscal year ended June 30, 2017, the Agency reported total revenue of \$19,873,269 and total expenses of \$19,130,900 for a 'net income' of \$742,369; however, contributions totaling \$639,347 were made to the disregarded entity of Joplin Street Properties, LLC out of this 'net income' to fund the purchase of the Carolyn Court property. For FY2016, the Agency reported total revenue of \$18,761,860 and total expenses of \$18,141,415 for a total 'net income' of \$620,445.

During FY2017, net consumer services revenue experienced an overall increase of 7.78% amounting to \$697,332 while cash received from client services increased 5.13%. The Developmental Services Division increased billable revenue approximately \$877,169 as vacant beds were filled at the waiver group homes and Mount Hermon Manor Intermediate Care Facility (ICF) billed for ICF services starting September 2016. Both the Behavioral Health Services and Prevention Services Divisions experienced decreased billable revenue totaling approximately \$230,019 due to fewer Medicaid billable services being provided during FY2017. In the Behavioral Health Services Division, approximately \$81,030 of this amount was due to Medicaid ending the Virginia Independent Assessment Program (VICAP). Note 5 in the Notes to the Financial Statements details the revenue information by payor source. As shown in Note 6 in the Notes to the Financial Statements, the allowance for uncollectible accounts decreased from \$280,021 in FY2016 to \$237,479 in FY2017. The balance in the allowance for uncollectible accounts corresponds to the balance of accounts receivable greater than 90 days old for the direct client payor source and the balance in the Virginia Department of Taxation debt set off payor source. The net effect of the actual write-offs in FY2017 and FY2016 with the adjustments to the allowance for doubtful accounts resulted in bad debt expense on the operating statement of \$179,586 and \$273,859, respectively. The Agency's Finance Division sends delinquency notices to consumers at 60 and 90 day past due intervals. Then, after the final notice and continued non-payment, the account is transferred from the direct client payor source to debt set off if pertinent information has been obtained on the individual's account. If after two years of non-payment from a matching Virginia income tax refund in the debt set-off payor source, the charge is written off the books as an uncollectible account. Consumer accounts are reviewed and write-offs are done monthly; therefore, the amount of annual write-offs will vary depending on the age of the receivable. Other revenue increased slightly by \$26,631 from FY2016 to FY2017 as shown on the operating statement. Other revenue consists mostly of local agency grants such as United Way, Community Foundation, etc. and will vary each year based on the grant awards and the timing of spending of the grant awards.

Appropriations from the federal government increased overall by \$112,494. Prevention Services received an additional \$44,766 in Strategic Prevention block grant funds due to the federal fiscal year funding cycle. Prevention also received \$34,050 for a new Department of Criminal Justice Services grant; however, Prevention experienced a decrease in federal funds for the Virginia Department of Health Maternal Infant and Early Childhood Home Visiting (MIECHV) grant in the amount of \$56,367. Federal Part C Infant Grant funds were \$14,451 more in FY2017 than FY2016. Furthermore, the Behavioral Health Services Division received a \$44,422 federal grant from the Department of Rail and Public Transportation as match on a new passenger bus. For FY2017, the Agency used \$35,815 more of deferred federal revenue than in FY2016.

Appropriations from the state government decreased \$1,269,180 on the cash flow statement but increased on the operating statement by \$233,920. These changes are mostly due to the variability in the deferred revenue from unspent previous year state funds. Per Note 13 of the Notes to the Financial Statements, state deferred revenue decreased from \$2,688,559 at June 30, 2016 to \$2,177,243 at June 30, 2017.

The significant changes to state deferred revenue were as follows:

- A total of \$1,045,285 in unspent prior year state funds were used by the Agency in FY2017 as follows:
 - (1) \$196,896 used for regional related programs for Discharge Assistance (DAP), Local Inpatient Purchase of Services (LIPOS) and Residential Crisis Stabilization;
 - (2) \$116,618 used by the Agency for various capital and one-time purchases such as vehicles and building improvements at Rison Street;
 - (3) \$100,000 used to replenish the client loan fund in the Behavioral Health Services Division;
 - (4) \$27,909 used from smaller one-time restricted state funds received in previous years for Suicide Prevention and Child Crisis and Response services; and
 - (5) \$603,862 used from previous year state general funds to purchase the property on Carolyn Court.
- DPCS is Fiscal Agent for the Southside Behavioral Health Consortium which includes DPCS, Piedmont Community Services (PCS), Southside Community Services Board (SCS), and Southern Virginia Mental Health Institute. Unspent prior year regional restricted state funds totaling \$265,577 were distributed to PCS and SCS during FY2017.

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

- A total of \$158,000 of regional restricted state funds was received in June 2017 by DPCS as the Fiscal Agent and unspent by June 30.
- The Agency received \$330,000 of restricted state funds from the Department of Behavioral Health and Developmental Services (DBHDS) in June 2017 to carry over and use in FY2018 to support the program operations at Piney Ridge Apartments which was previously funded by regional DAP funding. The Agency can no longer use DAP funds to support this program as a result of the special audit by DBHDS during FY2017.
- A total of \$263,129 of Substance Abuse state general funds received during FY2017 in the Behavioral Health Services Division was unspent at June 30, 2017.
- A combined total of \$48,416 in other state funds was unspent in all three of the service divisions.

The majority of the remaining balance of deferred revenue from state funds in Note 13 includes the state general, earmarked, and restricted funds mostly in the Behavioral Health Services Division from years prior to FY2017. The deferred revenue from federal funds includes Prevention funds received in FY2017 but unspent at June 30. The Agency does anticipate using these balances in future fiscal years.

Other changes in state funds included an additional \$62,403 of state Virginia Department of Social Services grant funds to support the MIECHV program and offset the decrease in federal funds in this program. Due to the closure of the Residential Crisis Stabilization program, state revenue decreased \$404,157 from FY2016 as this program was closed in December 2016 and DBHDS ceased funding the Agency in December. Furthermore, state revenue decreased \$309,618 from FY2016 as this amount was received in FY2016 to offset the construction costs for Mount Hermon Manor.

Overall, the Agency's total operating expenses increased 5.45% from \$18,141,415 in FY2016 to \$19,130,900 in FY2017. Personnel expense includes both salaries and wages and fringe benefits for payroll taxes, health insurance, retirement, group life and workers compensation insurance expense. Personnel expense increased overall by 7.08% and was attributable to various factors. The Agency gave a 2% merit raise in salary to employees on their performance anniversary date and a 1% salary scale increase on December 24, 2016. Furthermore, several new positions were created and filled with the addition of Mount Hermon Manor, an Intermediate Care Facility (ICF), which opened in June 2016; thus, these new positions were paid for the entire fiscal year for FY2017 as compared to FY2016. Fringe benefits increased as salaries increased and due to new positions; however, the Agency's health insurance expense increased \$231,652 due to increased claims and administrative fees.

Other expense categories increased as well during FY2017. Staff development expenses include workshop/conference attendance and position advertisement for vacancies both of which increased during FY2017. The increase in the Travel category is due to a federal grant in the Prevention Services Division allowing funding for other community coalition members to attend National Prevention conferences. Depreciation increased during FY2017 due to the change in the estimated useful lives of ICF related building components. As a result of the last two years of the finalization of the cost settlement report for River View Place ICF and the difference in the Agency's depreciation claimed versus the auditors depreciation adjustments, Finance obtained the auditor work papers and researched the useful lives used in the depreciation schedule. The Agency was able to reduce the useful lives of building related assets and thus claim more depreciation expense than in previous fiscal years. The depreciation schedules for the Agency and the ICF auditors should now be the same going forward. The decrease in bad debt expense was mentioned previously in this analysis.

Per the Statement of Net Assets (balance sheet) in this analysis, Cash and cash equivalents includes the Agency's regular checking account, client loan fund account, and certificates of deposit (CD). At June 30, 2017 the Agency's regular checking account balance was \$8,475,039 as compared to \$8,822,995 at June 30, 2016. Also, at June 30, 2017, CD accounts totaled \$2,237,794 as compared to \$2,205,275 at June 30, 2016. The balance of Due from other governments is less than FY2016 as the due from for FY2016 included an amount due from Piedmont Community Services for regional LIPOS funds of \$50,000 which is not a part of the FY2017 balance since LIPOS regional funds are distributed on a reimbursement basis now. Notes receivable- consumers is the loan fund in the Behavioral Health Services Division and decreased due to a thorough analysis of those accounts and the write off of the uncollectible amounts at June 30, 2017. The decrease in Rental & Escrow Deposits is due to the purchase of Carolyn Court property subsequent to June 30, 2016 as the \$51,000 deposit paid to Starwood Properties in FY2016 was applied to the purchase price as the sale was completed to Joplin Street Properties LLC in October 2016.

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
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Accounts payable results from regular expenses incurred by June 30 but not paid until the subsequent fiscal year. The 15% increase in Accounts Payable from FY2016 to FY2017 is attributable to the regional funds for LIPOS being paid to PCS and SCS on a reimbursement basis starting with FY2017 and one-time restricted state funds being paid to another CSB for the Same Day Access (STEP-VA) project in the state of Virginia. State funds were received in June 2017 and subsequently paid to the contracting CSB in July for this project. Accrued payroll and related liabilities represent those payroll and related expenses incurred during the last pay period of the fiscal year thru June 30 for which the expenses were not paid until July. With the increased number of staff hired at Mount Hermon Manor ICF being fully operational as an ICF in September 2016, this liability increased for FY2017.

Overall in FY2017 the increase in net assets was \$103,022 compared to \$620,445 in FY2016, and the change in cash flow was \$(212,108) compared to \$1,045,114 in FY2016. One of the factors which contributed to the decrease in cash flow was the use of a substantial amount of state deferred revenue during FY2017.

Fixed Assets

Note 8 of the Notes to the Financial Statements presents the details of the Agency's property and equipment. Approximately \$143,795 in fixed assets were acquired during FY2017. Building and land improvements totaling \$41,914 were completed and included: (1) \$20,175 for the painting at Rison Street, (2) \$5,500 for a concrete pad under the dumpster at Rison Street, and (3) \$16,239 in construction in progress costs paid to the architect and engineering firm for the project to convert Keen Street to an ICF. A total of \$35,439 in fully depreciated equipment was written off the books as it was no longer in use. Furthermore, three new Taurus's, one Explorer, and one new passenger bus were purchased totaling \$146,304 in FY2017.

Long-Term Debt

Long-term debt consists of accrued leave balances for vacation and sick leave for current staff and postemployment health insurance. During FY2014, DPCS expired the two leave policy plan which included accruals for vacation and sick leave separately and replaced these with one accrual for Paid Time Off (PTO). The PTO system includes one accrual rate to be used for either vacation or sick time off. The accrued leave balances consist of PTO hours earned but unpaid at June 30 for all regular full-time and regular part-time staff and 25% of sick hours balance to a maximum of \$6,000 for all regular full-time and regular part-time staff employed at least 5 years as of June 30. The liability decreased from \$1,298,924 in FY2016 to \$1,219,037 in FY2017 due to employee turnover. The portion of this liability related to the sick hours balance will either remain steady or decrease over time as no additional hours will accrue in this category. The liability for postemployment health insurance decreased from \$505,116 in FY2016 to \$486,571 in FY2017. This liability is due to Board policy allowing terminating staff with 20 years of service to use their remaining sick leave balance to cover health insurance premiums or to be reimbursed for other health insurance coverage after providing documentation to Finance of the coverage and cost amounts. This liability is calculated based on staff with 20 years or more of service at June 30 less the 25% payout of their unused sick leave hours accumulated times their pay rate at June 30. This postemployment health insurance balance will be used each month to cover the employee only premium of Agency sponsored health insurance or be used to cover the actual costs paid by the former employee for other health insurance coverage until the balance is exhausted or due to forfeiture of credits resulting from death or cancellation of insurance. The calculation of this liability is affected by the expiration of the accrual of sick leave separately and as a result will increase only when current employees reach the 20 year service level and have a balance of sick leave hours to use for postemployment health insurance coverage. The postemployment health insurance liability of \$486,571 at June 30, 2017 includes eight 'retirees' and fifteen current employees with 20 years of service.

Unrestricted but Designated Net Assets

The Agency has designated \$126,064 of unrestricted net assets to pay for the postemployment health insurance liability. During FY2017, the Agency paid \$20,081 for postemployment health insurance compared to \$43,128 in FY2016.

Forecast for FY2018

In FY2018, the Agency will continue to use as much deferred revenue as possible including working with the regional partner CSBs to continue to utilize regional funds which include one-time funding for a specific regional project related to reducing state hospital bed days for the geriatric population. Also, the Agency will continue the project to convert the group home on Keen Street to an ICF. The implementation of the Medicaid CCC Plus requirements will impact the Agency's revenue; however, this impact is unknown at this time. Also, the Agency and Bellevue, Inc. broke ground on the Hairston Street Campus Expansion project in October 2017.

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

**Management Discussion and Analysis for the Agency Only- Including GASB Statement 68 for Pension
Amounts Related to the Virginia Retirement System (VRS)**

The Governmental Accounting Standards Board issued Statement No. 68 which requires DPCS as a political subdivision and participant in the Virginia Retirement System to record and show on its audited financial statements amounts related to VRS. DPCS is a participant in VRS as an Agent Multiple-Employer Plan and therefore has an 'account' with VRS. The following two tables represent the changes to DPCS's financial statements to show VRS amounts for pension expense, net pension liability, and deferred inflows and outflows. These amounts were obtained from VRS and have been actuarially determined; however, they reflect amounts as of June 30, 2016 but are required to be presented in the FY2017 DPCS audited financial statements.

<u>Summary Statement of Net Assets Comparison</u>				
	<u>FY2017 without VRS</u>	<u>Change- VRS</u>	<u>FY2017 with VRS</u>	<u>FY2016 with VRS</u>
<u>Assets:</u>				
<i>Cash and cash equivalents</i>	\$ 11,035,213	\$ -	\$ 11,035,213	\$ 11,247,321
<i>Prepaid expenses</i>	43,588	-	43,588	49,306
<i>Fees receivable (net)</i>	1,459,611	-	1,459,611	1,179,007
<i>Due from other governments</i>	147,151	-	147,151	196,247
<i>Notes receivable- consumers</i>	32,128	-	32,128	43,761
<i>Rental & Escrow deposits</i>	10,325	-	10,325	65,825
<i>Restricted cash held for consumers</i>	71,714	-	71,714	64,869
<i>Equipment, Land & Improvements (net)</i>	3,717,701	-	3,717,701	3,941,352
<i>Net Pension Asset- VRS</i>	-	737,881	737,881	1,868,810
<i>Deferred Outflows of Resources- VRS</i>	-	1,008,594	1,008,594	470,868
<u>Liabilities:</u>				
<i>Accounts payable</i>	\$ 514,705	\$ -	\$ 514,705	\$ 445,261
<i>Accrued payroll & other liabilities</i>	785,376	-	785,376	618,756
<i>Consumer deposits</i>	71,714	-	71,714	64,869
<i>Deferred revenue</i>	2,251,649	-	2,251,649	2,769,405
<i>Accrued leave</i>	1,219,037	-	1,219,037	1,298,924
<i>Accrued postemployment health</i>	486,571	-	486,571	505,116
<i>Net Pension Liability- VRS</i>	-	-	-	-
<i>Deferred Inflows of Resources- VRS</i>	-	337,869	337,869	1,077,182
<u>Net Assets:</u>				
<i>Investments in fixed assets</i>	\$ 3,717,701	\$ -	\$ 3,717,701	\$ 3,941,352
<i>Unrestricted but designated</i>	126,064	-	126,064	146,145
<i>Unrestricted net assets</i>	7,344,614	-	7,344,614	6,997,860
<i>Restricted net assets- VRS</i>	-	1,408,606	1,408,606	1,262,496

According to VRS, the Net Plan Assets for DPCS's account exceeded the Pension Liability; therefore, DPCS does not have a Net Pension Liability and instead has a Net Pension Asset of \$737,881 as of June 30, 2016 to include in the FY2017 financial statements and a Net Pension Asset of \$1,868,810 as of June 30, 2015 that was included in the FY2016 financial statements. The Deferred Outflows of Resources represent the VRS employer contributions and expense amount for FY2017 paid by DPCS to VRS based on the established 3.60 percent employer rate and the employee's monthly creditable compensation during FY2017. See the operating statement on the next page as \$318,745 has been removed from the Personnel Expense category and replaced with the VRS actuarial Pension Expense amount of \$170,953 and a correction for FY2016 of \$1,682 for a net change on the operating statement of \$146,110. The \$337,869 and \$1,077,182 for FY2017 and FY2016 shown as the Deferred Inflows of Resources is the VRS Actuarial determined amount as of June 30, 2016 and June 30, 2015 respectively to be the difference in the projected and actual earnings on plan investments.

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>					
	<u>FY2017- without VRS</u>	<u>Change- VRS</u>	<u>FY2017- with VRS</u>	<u>FY2016- without VRS</u>	<u>FY2016- with VRS</u>
<u>Operating Revenues:</u>					
<i>Net consumer services revenue</i>	\$ 9,660,677	\$ -	\$ 9,660,677	\$ 8,963,345	\$ 8,963,345
<i>Other revenue</i>	294,694	-	294,694	268,063	268,063
<u>Operating Expenses:</u>					
<i>Personnel</i>	\$ 14,278,764	\$ (146,110)	\$ 14,132,654	\$ 13,334,385	\$ 12,799,255
<i>Staff development</i>	170,568	-	170,568	148,525	148,525
<i>Facilities</i>	1,438,824	-	1,438,824	1,460,622	1,460,622
<i>Supplies/equipment maintenance</i>	824,305	-	824,305	885,441	885,441
<i>Travel</i>	169,440	-	169,440	140,080	140,080
<i>Consultant/contract</i>	1,659,249	-	1,659,249	1,615,186	1,615,186
<i>Depreciation</i>	410,164	-	410,164	283,317	283,317
<i>Bad debt expense</i>	179,586	-	179,586	273,859	273,859
<i>Miscellaneous</i>	-	-	-	-	-
<u>Non-operating Revenues/(Expenses):</u>					
<i>Appropriations from State gov't</i>	\$ 7,628,046	\$ -	\$ 7,628,046	\$ 7,394,126	\$ 7,394,126
<i>Appropriations from Federal gov't</i>	1,326,526	-	1,326,526	1,214,032	1,214,032
<i>Appropriations from Local sources</i>	919,851	-	919,851	877,578	877,578
<i>Contributions (to)/from related organization</i>	(639,347)	-	(639,347)	-	-
<i>Interest income</i>	43,475	-	43,475	44,716	44,716
Total Change in Net Assets	\$ 103,022	\$ 146,110	\$ 249,132	\$ 620,445	\$ 1,950,516

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

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

<u>Summary Statement of Net Assets Comparison</u>				
	<u>FY2017</u>	<u>FY2016</u>	<u>Dollar</u> <u>Change</u>	<u>FY2015</u>
<u>Assets:</u>				
Cash and cash equivalents	\$ 520	\$ 131	\$ 389	\$ 1,027
Cash held in escrow	30,282	29,517	765	34,518
Rents receivable	-	-	-	-
Due from HUD	-	-	-	-
Land, buildings & equipment, net	316,129	325,164	(9,035)	335,718
<u>Liabilities:</u>				
Accounts payable	\$ 370	\$ 1,884	\$ (1,514)	\$ 355
Tenant security deposits	1,076	1,076	-	1,075
<u>Net Assets:</u>				
Investments in fixed assets	\$ 316,129	\$ 325,164	\$ (9,035)	\$ 335,718
Net Assets in escrow accounts	29,206	28,441	765	33,443
Unrestricted net assets	150	(1,753)	1,903	672

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>				
	<u>FY2017</u>	<u>FY2016</u>	<u>Dollar</u> <u>Change</u>	<u>FY2015</u>
<u>Operating Revenues:</u>				
Rent revenue, net	\$ 20,805	\$ 20,160	\$ 645	\$ 19,128
<u>Operating Expenses:</u>				
Facilities	\$ 12,992	\$ 15,886	\$ (2,894)	\$ 12,685
Supplies	23	-	23	-
Legal and professional fees	1,125	1,105	20	1,125
Management fee	2,465	2,388	77	2,266
Amortization expense	-	-	-	-
Depreciation expense	10,581	10,553	28	10,553
Payment to HUD for excess residual receipts	-	8,221	(8,221)	-
<u>Non-operating Revenues/(Expenses):</u>				
Interest income	14	13	1	15
Total Changes in Net Assets				
	\$ (6,367)	\$ (17,980)	\$ 11,613	\$ (7,486)

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

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

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

<u>Summary Statement of Net Assets Comparison</u>				
			<u>Dollar</u>	
	<u>FY2017</u>	<u>FY2016</u>	<u>Change</u>	<u>FY2015</u>
<u>Assets:</u>				
<i>Cash and cash equivalents</i>	\$ 6,692	\$ 6,000	\$ 692	\$ 4,844
<i>Cash held in escrow</i>	34,118	27,850	6,268	35,847
<i>Tenant rent receivable</i>	-	-	-	-
<i>Due from HUD</i>	-	-	-	28
<i>Prepaid Insurance</i>	-	-	-	2,701
<i>Land, buildings & equipment, net</i>	760,883	784,604	(23,721)	808,325
<u>Liabilities:</u>				
<i>Accounts payable</i>	\$ 3,421	\$ 3,378	\$ 43	\$ 2,937
<i>Tenant security deposits</i>	1,594	1,527	67	1,422
<u>Net Assets:</u>				
<i>Investments in fixed assets</i>	\$ 760,883	\$ 784,604	\$ (23,721)	\$ 808,325
<i>Net Assets in escrow accounts</i>	32,524	26,323	6,201	34,425
<i>Unrestricted net assets</i>	3,271	2,622	649	4,636

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>				
			<u>Dollar</u>	
	<u>FY2017</u>	<u>FY2016</u>	<u>Change</u>	<u>FY2015</u>
<u>Operating Revenues:</u>				
<i>Rent revenue, net</i>	\$ 37,134	\$ 35,964	\$ 1,170	\$ 33,514
<u>Operating Expenses:</u>				
<i>Facilities</i>	\$ 22,132	\$ 21,412	\$ 720	\$ 25,385
<i>Supplies</i>	169	-	169	-
<i>Legal and professional fees</i>	3,938	3,857	81	3,600
<i>Management fee</i>	4,057	3,933	124	3,658
<i>Amortization expense</i>	-	-	-	6,143
<i>Depreciation expense</i>	23,721	23,721	-	23,721
<i>Payment to HUD for excess residual receipts</i>	-	16,888	(16,888)	-
<u>Non-operating Revenues/(Expenses):</u>				
<i>Interest income</i>	12	11	1	7
Total Changes in Net Assets	\$ (16,871)	\$ (33,836)	\$ 16,965	\$ (28,986)

Piney Ridge II residents pay monthly rents based on income/expense determinations and HUD pays a subsidy of the rent. Piney Ridge Apartments Corporation II is responsible for facility related expenses. The Agency pays for staffing and related expenses to supervise the residents. Beginning in FY2016, HUD issued regulations which require HUD sponsored organizations to return the excess balance in the Residual Receipts Escrow Account upon their annual renewal. This excess balance is calculated as the balance at renewal less \$250.00 per apartment. This amounted to an excess in FY2016 of \$16,888 for Piney Ridge Apartments Corporation II. The payment was issued to HUD. The calculation for excess Residual Receipts was completed in July 2017 for the renewal process with HUD; however, the payment for this excess was made subsequent to FY2017 and will be reflected in the financial statements for FY2018. Residual Receipts are generated at fiscal year-end when the organization has a checking account balance higher than the amount of accounts payable and other current liabilities.

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

Management Discussion and Analysis for Ashlawn View, Inc. Only

<u>Summary Statement of Net Assets Comparison</u>				
	<u>FY2017</u>	<u>FY2016</u>	<u>Dollar</u> <u>Change</u>	<u>FY2015</u>
<u>Assets:</u>				
<i>Cash and cash equivalents</i>	\$ 305	\$ 610	\$ (305)	\$ 196
<i>Cash held in escrow</i>	13,213	11,094	2,119	8,808
<i>Tenant rent receivable</i>	-	-	-	-
<i>Due from HUD</i>	-	-	-	-
<i>Unamortized organization costs</i>	908	1,549	(641)	2,190
<i>Land, buildings & equipment, net</i>	542,614	558,251	(15,637)	573,887
<u>Liabilities:</u>				
<i>Accounts payable</i>	\$ 14,868	\$ 12,031	\$ 2,837	\$ 3,093
<i>Tenant security deposits & other escrow liability</i>	4,466	4,466	-	4,191
<u>Net Assets:</u>				
<i>Investments in fixed assets</i>	\$ 543,522	\$ 559,800	\$ (16,278)	\$ 576,077
<i>Net Assets in escrow accounts</i>	8,746	6,628	2,118	4,617
<i>Unrestricted net assets</i>	(14,562)	(11,421)	(3,141)	(2,897)

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>				
	<u>FY2017</u>	<u>FY2016</u>	<u>Dollar</u> <u>Change</u>	<u>FY2015</u>
<u>Operating Revenues:</u>				
<i>Rent revenue, net</i>	\$ 20,600	\$ 15,600	\$ 5,000	\$ 15,768
<u>Operating Expenses:</u>				
<i>Facilities</i>	\$ 17,748	\$ 15,375	\$ 2,373	\$ 14,119
<i>Supplies</i>	-	-	-	104
<i>Legal and professional fees</i>	3,877	6,737	(2,860)	1,294
<i>Management fee</i>	-	-	-	-
<i>Amortization expense</i>	641	641	-	641
<i>Depreciation expense</i>	15,637	15,637	-	15,637
<i>Miscellaneous</i>	-	-	-	-
<u>Non-operating Revenues/(Expenses):</u>				
<i>Interest income</i>	2	-	2	-
<i>Total Changes in Net Assets</i>	\$ (17,301)	\$ (22,790)	\$ 5,489	\$ (16,027)

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

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

Management Discussion and Analysis for Joplin Street Properties, LLC Only

<u>Summary Statement of Net Assets Comparison</u>				
			<u>Dollar</u>	
	<u>FY2017</u>	<u>FY2016</u>	<u>Change</u>	<u>FY2015</u>
<u>Assets:</u>				
<i>Cash and cash equivalents</i>	\$ 993	\$ -	\$ 993	\$ -
<i>Tenant rent receivable</i>	700	-	700	-
<i>Construction in Progress</i>	667,611	-	667,611	-
<u>Liabilities:</u>				
<i>Accounts payable</i>	\$ 16,778	\$ -	\$ 16,778	\$ -
<u>Net Assets:</u>				
<i>Investments in fixed assets</i>	\$ 667,611	\$ -	\$ 667,611	\$ -
<i>Unrestricted net assets</i>	(15,085)	-	(15,085)	-

<u>Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison</u>				
			<u>Dollar</u>	
	<u>FY2017</u>	<u>FY2016</u>	<u>Change</u>	<u>FY2015</u>
<u>Operating Revenues:</u>				
<i>Rent revenue, net</i>	\$ 15,698	\$ -	\$ 15,698	\$ -
<u>Operating Expenses:</u>				
<i>Facilities</i>	\$ 2,519	\$ -	\$ 2,519	\$ -
<u>Non-operating Revenues/(Expenses):</u>				
<i>Interest income</i>	-	-	-	-
<i>Contribution from sponsoring agent</i>	639,347	-	639,347	-
<i>Total Changes in Net Assets</i>	\$ 652,526	\$ -	\$ 652,526	\$ -

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

**Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2017 and June 30, 2016**

Bellevue, Inc.

Bellevue, Inc. maintains a calendar based fiscal year from January thru December and as such those audited amounts are included in these financial statements. Bellevue, Inc. provides DPCS, as the sole tenant, fixed assets (land, buildings and improvements, and furniture and equipment) totaling \$5,797,997 and \$5,586,591 less accumulated depreciation of \$2,658,310 and \$2,521,498 for a net value of \$3,139,687 and \$3,065,093 at December 31, 2016 and December 31, 2015 respectively. The Agency leases five locations from Bellevue, Inc. The rents the Agency pays to Bellevue, Inc. are used to pay towards the outstanding loans as specified in the Notes to the Financial Statements. The amount of loans payable at December 31, 2016 and December 31, 2015 were \$463,661 and \$572,403 respectively.

Contacting the Agency's Financial Management

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

FINANCIAL STATEMENTS

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF NET ASSETS

June 30, 2017 and 2016

See Independent Auditors' Report

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Unrestricted cash and cash equivalents	\$ 11,307,533	\$ 11,570,195
Prepaid expenses	17,383	18,101
Fees receivable (net of allowance for doubtful accounts)	1,460,311	1,179,007
Due from other governments and agencies	130,119	182,233
Notes receivable - consumers	32,128	43,761
Rental deposits	10,325	65,825
Restricted current assets:		
Cash held for consumers	71,714	64,869
Restricted cash - held in escrow	77,613	68,461
Total current assets	<u>13,107,126</u>	<u>13,192,452</u>
Capital assets:		
Equipment, buildings, land & improvements	14,843,816	13,810,474
Less accumulated depreciation	<u>(5,699,191)</u>	<u>(5,136,010)</u>
Total capital assets	<u>9,144,625</u>	<u>8,674,464</u>
Other assets:		
Organizational costs, net	1,000	2,813
Net pension asset - Virginia Retirement System	737,881	1,868,810
Total other assets	<u>738,881</u>	<u>1,871,623</u>
Deferred outflows of resources		
Pension contributions	<u>1,008,594</u>	<u>470,868</u>
Total assets	<u>\$ 23,999,226</u>	<u>\$ 24,209,407</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF NET ASSETS

June 30, 2017 and 2016

See Independent Auditors' Report

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 536,342	\$ 466,702
Accrued payroll and other liabilities	785,376	618,756
Current portion of long-term obligations	112,705	108,183
Deferred revenue	<u>2,251,649</u>	<u>2,774,405</u>
	3,686,072	3,968,046
Current liabilities payable from restricted assets:		
Consumer deposits	<u>75,618</u>	<u>68,706</u>
Total current liabilities	<u>3,761,690</u>	<u>4,036,752</u>
Long-term liabilities:		
Long-term debt non-current portion	350,956	464,220
Accrued postemployment health insurance	486,571	505,116
Accrued leave	<u>1,219,037</u>	<u>1,298,924</u>
Total long-term liabilities	<u>2,056,564</u>	<u>2,268,260</u>
Total liabilities	<u>5,818,254</u>	<u>6,305,012</u>
Deferred inflows of resources		
Unamortized balance - VRS	<u>337,869</u>	<u>1,077,182</u>
Net assets:		
Investment in capital assets, net of related debt	8,681,964	8,104,874
Restricted for cash held in escrow	70,476	61,392
VRS net position	1,408,606	1,262,496
Unrestricted	<u>7,682,057</u>	<u>7,398,451</u>
Total net assets	<u>17,843,103</u>	<u>16,827,213</u>
Total liabilities and net assets	<u>\$ 23,999,226</u>	<u>\$ 24,209,407</u>

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2017 and 2016

See Independent Auditors' Report

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Net services revenue	\$ 9,754,914	\$ 9,035,069
Other revenues	288,172	261,742
Total operating revenues	<u>10,043,086</u>	<u>9,296,811</u>
Operating expenses:		
Personnel	14,132,654	12,799,255
Staff development	170,568	148,525
Facilities	1,012,095	1,031,175
Supplies and equipment maintenance	824,497	885,555
Travel	169,440	140,080
Consultant/contract	1,683,827	1,686,747
Depreciation	596,915	470,040
Amortization	1,813	2,443
Bad debt expense	179,586	273,859
Miscellaneous	242	215
Total operating expenses	<u>18,771,637</u>	<u>17,437,894</u>
Operating (loss)	<u>(8,728,551)</u>	<u>(8,141,083)</u>
Non-operating income (expense):		
Appropriations from government:		
State	7,628,046	7,394,126
Federal	1,326,526	1,214,032
Local	762,191	719,918
Interest income	43,503	44,740
Interest expense	(15,825)	(20,665)
Total non-operating income	<u>9,744,441</u>	<u>9,352,151</u>
Total changes in net assets	1,015,890	1,211,068
Net assets, beginning of year	16,827,213	15,616,145
Net assets, ending of year	<u>\$ 17,843,103</u>	<u>\$ 16,827,213</u>

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2017 and 2016
 See Independent Auditors' Report

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received for services provided	\$ 9,302,383	\$ 8,830,830
Other unrestricted operating revenue	293,372	292,591
Cash payments for personnel	(13,227,185)	(12,943,925)
Cash payments for supplies and other operating needs	<u>(4,633,808)</u>	<u>(4,225,744)</u>
Net cash (used by) operating activities	<u>(8,265,238)</u>	<u>(8,046,248)</u>
Cash flows from non-capital financing activities:		
Appropriations from the commonwealth	7,167,687	8,436,867
Appropriations from local governments	623,773	567,064
Grants received from federal government	<u>1,325,621</u>	<u>1,235,707</u>
Net cash provided by non-capital financing activities	<u>9,117,081</u>	<u>10,239,638</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,022,812)</u>	<u>(929,776)</u>
Cash flows from investing activities:		
Interest income	43,503	44,740
Escrow account activity	(10,629)	11,090
Loan payments	<u>(124,567)</u>	<u>(124,568)</u>
	<u>(91,693)</u>	<u>(68,738)</u>
Net (decrease) increase in cash and cash equivalents	(262,662)	1,194,876
Cash and cash equivalents:		
Beginning of year	11,570,195	10,375,319
End of year	<u>\$ 11,307,533</u>	<u>\$ 11,570,195</u>

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 1. Organization and Purpose

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

Note 2. Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

Component Units

Bellevue, Inc. is a non-stock, non-profit corporation that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Board of Directors of Bellevue, Inc. is self-perpetuating and is independent from the Agency's Board of Directors. The Agency's administrative office complex plus three facilities for residential and day services for intellectually disabled individuals receiving services are owned by Bellevue, Inc. The Agency is the exclusive tenant of Bellevue, Inc.'s property (see Note 15 - Commitments), and the Agency's management handles all administrative responsibilities for Bellevue, Inc.

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 2. Summary of Significant Accounting Policies (continued)

Component Units (continued)

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

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

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

Basis of Presentation

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

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

Budgets and Budgetary Accounting

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

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

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

Cash and Cash Equivalents

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 2. Summary of Significant Accounting Policies (Continued)

Investments

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

Operating Revenues and Expenses

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

Net Services Revenue

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

Consumer Deposits

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

Capital Assets

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

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

Client Loan Funds

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

Pensions

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 2. Summary of Significant Accounting Policies (Continued)

Income Tax

The Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is registered with the Commonwealth of Virginia as a non-profit organization. There is no unrelated business income which would be subject to taxation, and therefore there is no provision for income taxes. The Agency believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Agency's federal Exempt Organization Tax Returns (Form 990) for the previous three fiscal years are open to examination by the IRS and generally remain open for three years after they are filed.

Vacation and Sick Leave

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

Defined Benefit Postemployment Health Insurance

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

The insurance credits allow the eligible former employee to continue participation in the Agency's health insurance plan after termination until the credits are exhausted. The credits are available to the former employee only and are forfeited upon the former employee's becoming ineligible to participate in the Agency's health insurance plan for any reason. The Agency has not funded the postemployment health insurance plan, and therefore benefits under this plan are paid directly by the Agency. No separate plan financial statements are issued. The following schedule shows the changes in the accrued postemployment health insurance liability for the past three years:

Year Ended	Beginning	Benefits Vested	Benefits Paid	Ending	Due Within One Year
	Liability Balance			Liability Balance	
June 30, 2017	505,116	1,536	20,081	486,571	67,521
June 30, 2016	527,977	20,267	43,128	505,116	47,286
June 30, 2015	543,877	24,261	40,161	527,977	67,275

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 2. Summary of Significant Accounting Policies (Continued)

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

Group Hospitalization and Life Insurance

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

Use of Estimates

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

Reclassifications

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

Note 3. Cash and Investments

At year end, the carrying value of the organization's cash on deposit with banks and savings institutions was \$11,511,933 and the reconciled bank balances were \$11,435,726.

The total bank balances of \$11,511,933 and \$11,672,256 for June 30, 2017 and 2016, respectively, were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Statutes authorize the organization to invest in obligations of the United States, Commonwealth of Virginia or agencies thereof, and/or the International Bank for Reconstruction and Development. In addition, investments may be made in commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 4. Condensed Financial Statements:

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES & COMPONENT UNITS

STATEMENT OF NET ASSETS

June 30, 2017

	Agency	Piney Ridge Apartments	Piney Ridge Apartments II	Ashlawn View	Bellevue	Eliminations	Blended
ASSETS							
Current assets:							
Unrestricted cash & cash equivalents	\$ 11,036,206	\$ 520	\$ 6,692	\$ 305	\$ 263,810	\$ -	\$ 11,307,533
Fees receivable (less allowance for doubtful accounts)	1,460,311	-	-	-	-	-	1,460,311
Due from other govts. & agencies	147,151	-	-	-	-	(17,032)	130,119
Other current assets	86,041	-	-	-	-	(26,205)	59,836
Restricted current assets	71,714	30,282	34,118	13,213	-	-	149,327
Total current assets	12,801,423	30,802	40,810	13,518	263,810	(43,237)	13,107,126
Capital assets:							
Equipment, buildings, land & improvements	7,080,249	445,302	921,623	598,645	5,797,997	-	14,843,816
Less accumulated depreciation	(2,694,936)	(129,174)	(160,740)	(56,031)	(2,658,310)	-	(5,699,191)
Total capital assets	4,385,313	316,128	760,883	542,614	3,139,687	-	9,144,625
Other assets:							
Organizational costs, net	-	-	-	908	92	-	1,000
Net Pension Asset - VRS	737,881	-	-	-	-	-	737,881
Total other assets	737,881	-	-	908	92	-	738,881
Deferred Outflows of Resources - VRS	1,008,594	-	-	-	-	-	1,008,594
Total assets	\$ 18,933,211	\$ 346,930	\$ 801,693	\$ 557,040	\$ 3,403,589	\$ (43,237)	\$ 23,999,226
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable	\$ 531,484	\$ 369	\$ 3,421	\$ 14,868	\$ -	\$ (13,800)	\$ 536,342
Accrued payroll and other liabilities	785,376	-	-	-	-	-	785,376
Current portion of long-term debt	-	-	-	-	112,705	-	112,705
Deferred revenue	2,251,649	-	-	-	26,205	(26,205)	2,251,649
Restricted assets - consumer deposits	71,714	1,076	1,594	4,466	-	(3,232)	75,618
Total current liabilities	3,640,223	1,445	5,015	19,334	138,910	(43,237)	3,761,690
Long-term liabilities:							
Long-term debt non-current portion	-	-	-	-	350,956	-	350,956
Accrued postemployment health ins.	486,571	-	-	-	-	-	486,571
Accrued leave	1,219,037	-	-	-	-	-	1,219,037
Total long-term liabilities	1,705,608	-	-	-	350,956	-	2,056,564
Total liabilities	5,345,831	1,445	5,015	19,334	489,866	(43,237)	5,818,254
Deferred Inflows of Resources - VRS	337,869	-	-	-	-	-	337,869
Net assets:							
Investment in capital assets	4,385,313	316,128	760,883	543,522	2,676,118	-	8,681,964
Restricted for cash held in escrow	-	29,206	32,524	8,746	-	-	70,476
VRS net position	1,408,606	-	-	-	-	-	1,408,606
Unrestricted	7,455,592	151	3,271	(14,562)	237,605	-	7,682,057
Total net assets	13,249,511	345,485	796,678	537,706	2,913,723	-	17,843,103
Total liabilities and net assets	\$ 18,933,211	\$ 346,930	\$ 801,693	\$ 557,040	\$ 3,403,589	\$ (43,237)	\$ 23,999,226

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 4. Condensed Financial Statements (continued):

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2017

	Agency	Piney Ridge Apartments	Piney Ridge Apartments II	Ashlawn View	Bellevue	Eliminations	Blended
Operating revenues:							
Net services revenue	\$ 9,676,375	\$ 20,805	\$ 37,134	\$ 20,600	\$ 482,120	\$ (482,120)	\$ 9,754,914
Other revenues	294,695	-	-	-	-	(6,523)	288,172
Total operating revenues	<u>9,971,070</u>	<u>20,805</u>	<u>37,134</u>	<u>20,600</u>	<u>482,120</u>	<u>(488,643)</u>	<u>10,043,086</u>
Operating expenses:							
Personnel	14,132,654	-	-	-	-	-	14,132,654
Staff development	170,568	-	-	-	-	-	170,568
Facilities	1,441,343	12,992	22,132	17,748	-	(482,120)	1,012,095
Supplies and equip. maintenance	824,497	-	-	-	-	-	824,497
Travel	169,440	-	-	-	-	-	169,440
Consultant/contract	1,659,058	3,613	8,164	3,877	173,298	(164,183)	1,683,827
Depreciation	410,164	10,581	23,721	15,637	136,812	-	596,915
Amortization	-	-	-	641	1,172	-	1,813
Bad debt expense	179,586	-	-	-	-	-	179,586
Miscellaneous	-	-	-	-	242	-	242
Total operating expenses	<u>18,987,310</u>	<u>27,186</u>	<u>54,017</u>	<u>37,903</u>	<u>311,524</u>	<u>(646,303)</u>	<u>18,771,637</u>
Operating income (loss)	<u>(9,016,240)</u>	<u>(6,381)</u>	<u>(16,883)</u>	<u>(17,303)</u>	<u>170,596</u>	<u>157,660</u>	<u>(8,728,551)</u>
Nonoperating income (loss):							
Appropriations from government:							
State	7,628,046	-	-	-	-	-	7,628,046
Federal	1,326,526	-	-	-	-	-	1,326,526
Local	919,851	-	-	-	-	(157,660)	762,191
Interest income	43,475	14	12	2	-	-	43,503
Interest expense	-	-	-	-	(15,825)	-	(15,825)
Total non-operating income	<u>9,917,898</u>	<u>14</u>	<u>12</u>	<u>2</u>	<u>(15,825)</u>	<u>(157,660)</u>	<u>9,744,441</u>
Total changes in net assets	901,658	(6,367)	(16,871)	(17,301)	154,771	-	1,015,890
Net assets, beginning of year	<u>12,347,853</u>	<u>351,852</u>	<u>813,549</u>	<u>555,007</u>	<u>2,758,952</u>	<u>-</u>	<u>16,827,213</u>
Net assets, ending of year	<u>\$ 13,249,511</u>	<u>\$ 345,485</u>	<u>\$ 796,678</u>	<u>\$ 537,706</u>	<u>\$ 2,913,723</u>	<u>\$ -</u>	<u>\$ 17,843,103</u>

Note 5. Net Services Revenue

Net services revenue for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
Medicaid	\$8,693,718	\$7,941,559
Direct client fees	573,596	566,669
Third parties	487,600	526,841
	<u>\$9,754,914</u>	<u>\$9,035,069</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 6. Allowance for Doubtful Accounts

For the year ended June 30, 2017, the allowance for doubtful accounts was decreased by \$42,542 net of actual write-offs of \$213,768 for consumer accounts and \$8,359 for consumer notes. The net decrease brought the June 30, 2017 allowance to a balance of \$237,479. For the year ended June 30, 2016, the allowance for doubtful accounts was decreased by \$36,943 net of actual write-offs of \$289,634 for consumer accounts and \$21,167 for consumer notes, bringing the June 30, 2016 allowance to a balance to \$280,021.

Note 7. Due from Other Governments and Other Agencies

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

	2017	2016
Federal	\$ 53,497	\$ 27,791
Commonwealth of Virginia	34,698	64,427
Other local agencies	41,924	90,015
	<u>\$ 130,119</u>	<u>\$ 182,233</u>

Note 8. Capital Assets

The current capitalization policy requires the inclusion of those assets with a cost of \$5,000 or more. Capital assets at June 30, 2017 and 2016 consisted of the following:

Agency	2016	Additions	Reductions	2017
Construction in progress	\$ -	667,611	-	\$ 667,611
Furniture and equipment	991,872	-	35,439	956,433
Vehicles	1,536,355	146,304	-	1,682,659
Buildings & improvements	2,791,418	36,414	16,764	2,811,068
Leasehold improvements	940,213	5,500	(16,764)	962,477
	<u>6,259,858</u>	<u>855,829</u>	<u>35,439</u>	<u>7,080,248</u>
Piney Ridge Corporation				
Land (non-depreciable)	25,570	-	-	25,570
Buildings	410,097	-	-	410,097
Furniture and equipment	8,090	1,546	-	9,636
	<u>443,757</u>	<u>1,546</u>	<u>-</u>	<u>445,303</u>
Piney Ridge Corporation II				
Land (non-depreciable)	55,175	-	-	55,175
Buildings	862,245	-	-	862,245
Furniture and equipment	4,203	-	-	4,203
	<u>921,623</u>	<u>-</u>	<u>-</u>	<u>921,623</u>
Ashlawn View, Inc.				
Land (non-depreciable)	41,681	-	-	41,681
Buildings	556,964	-	-	556,964
	<u>598,645</u>	<u>-</u>	<u>-</u>	<u>598,645</u>
Bellevue, Inc.				
Land (non-depreciable)	299,140	-	-	299,140
Construction in progress	20,652	211,406	-	232,058
Buildings	5,182,102	-	-	5,182,102
Furniture and equipment	84,697	-	-	84,697
	<u>5,586,591</u>	<u>211,406</u>	<u>-</u>	<u>5,797,997</u>
Blended total assets	13,810,474	1,068,781	35,439	14,843,816
Less accumulated depreciation	<u>(5,136,010)</u>	<u>(603,526)</u>	<u>(40,345)</u>	<u>(5,699,191)</u>
	<u>\$ 8,674,464</u>	<u>465,255</u>	<u>(4,906)</u>	<u>\$ 9,144,625</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 9. Claims, Judgments, and Compensated Absences

Salaried employees' attendance and leave terms make provisions for the granting of a specified number of days leave with pay each year (see Note 2). At June 30, 2017 and 2016, the amounts of earned but unpaid employees' leave were \$1,219,037 and \$1,298,924, respectively.

Note 10. Net Assets

At June 30, 2017 and 2016, net assets of the Agency consisted of the following:

	<u>2017</u>	<u>2016</u>
Invested in capital assets, net of related debt:		
Net land, buildings, and equipment	\$ 8,680,964	\$ 8,102,061
Organizational costs, net	<u>1,000</u>	<u>2,813</u>
Total invested in capital assets	8,681,964	8,104,874
Unrestricted net assets:		
Designated for postemployment health insurance	126,064	146,145
Designated for cash in escrow	70,476	61,392
VRS net pension position	1,408,606	1,262,496
Unrestricted and undesignated	<u>7,555,993</u>	<u>7,252,306</u>
Total net assets	<u>\$ 17,843,103</u>	<u>\$ 16,827,213</u>

Unrestricted net assets were available for current use with the limitation that the Board of Directors has designated \$126,064 and \$146,145 of unrestricted net assets as of June 30, 2017 and 2016, respectively, for funding post employment health care benefits. See Postemployment Health Insurance - Note 2.

Note 11. Retirement Plan

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

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

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

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

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

Employees Covered by Benefit Terms: Employee membership data related to the plan, as of June 30, 2016 and 2015, the most recent years for which actuarial information is available, were as follows:

	June 30,	
	2016	2015
Participants		
Inactive Members or Their Beneficiaries		
Currently Receiving Benefits	78	74
Inactive Members		
Vested	47	45
Non-Vested	40	35
Active Elsewhere in VRS	59	57
Total Inactive Members	146	137
Active Members	219	207
Total	443	418

Contributions: The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Plan 1 and 2 participants are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

The Agency's contractually required contribution rate for the year ended June 30, 2016 was 5.37% of covered employee compensation for employees in Plan 1 and 2. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Retirement Plan were \$469,186 and \$464,029 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability The Agency's net pension liability or asset, as applicable, was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015 using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012.

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

Using stochastic projection results provided an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.3% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the median return (7.44%) does not change much but volatility declines significantly.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

Assumed asset allocation: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as provided by the System for use in the last actuarial experience study for four-year period ending June 30, 2012 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%
	100.00%		5.83%
Inflation			2.50%
* Expected arithmetic normal 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%.

Discount Rate: No municipal bond rates were used in the determination of the discount rate.

The discount rate used to determine total pension liability was 7 percent. 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 Agency Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

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

Changes in Net Pension Liability

	Increase (Decrease)			6/30/2017 Pension Expense
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	
Balance at June 30, 2015	\$ 22,731,147	\$24,599,957	\$ (1,868,810)	-
Changes for the year:				
Service costs	861,062	-	861,062	861,062
Interest on total pension liability	1,567,108	-	1,567,108	1,567,108
Difference between expected and actual experience	36,740	-	36,740	-
Contributions - Employer	-	469,186	(469,186)	-
Contributions - Employee	-	437,985	(437,985)	(437,985)
Net investment income	-	441,999	(441,999)	-
Projected earnings on plan investments	-	-	-	(1,729,144)
Expensed portion of current-period difference between actual and projected earnings on plan investments	-	-	-	257,429
Expensed portion of current period difference between expected & actual experience in total pension liability	-	-	-	8,022
Benefit payments, including refunds of employee contributions	(687,778)	(687,778)	-	-
Recognition of beginning deferred outflows of resources	-	-	-	111,966
Recognition of beginning deferred inflows of resources	-	-	-	(482,694)
Administrative expense	-	(15,004)	15,004	15,004
Other changes	-	(185)	185	185
Net changes	1,777,132	646,203	1,130,929	\$ 170,953

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

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Net Pension Liability	\$ 2,977,021	\$ (737,881)	\$ (3,766,075)

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017 and 2016, the Agency recognized pension expense (income) of \$170,953 and \$(70,829) respectively. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 28,718	\$ 337,869
Changes in assumptions	-	-
Net difference between projected and actual earnings on plan investments.	661,131	-
Employer contributions subsequent to the Measurement Date	<u>318,745</u>	<u>-</u>
	<u>\$1,008,594</u>	<u>\$ 337,869</u>

The \$470,868 reported at June 30, 2016 as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement date which will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ (105,227)
2019	(105,277)
2020	300,453
2021	262,081
Thereafter	-

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The Agency's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 11. Retirement Plan (continued)

At June 30, 2016, the Agency reported a deferred outflow or overfunding of its proportionate share of the net pension liability in the amount of \$1,868,810. The Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Agency's proportion of the Net Pension Liability was based on the Agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, VA 23218-2500 or downloaded at <http://www.varetire.org/Pdf/2015annurept.pdf>

Note 12. Local Support

Local support for the Agency for the fiscal years ended June 30, 2017 and 2016 was as follows:

	2017	2016
Pittsylvania County	\$ 293,913	\$ 267,194
City of Danville	329,860	299,870
Other local-in-kind support	138,418	152,854
	<u>\$ 762,191</u>	<u>\$ 719,918</u>

Note 13. Deferred Revenue

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

At June 30, 2017 and 2016, deferred revenue consists of the following:

	2017	2016
State	\$ 2,177,243	\$ 2,688,559
Federal	41,398	47,866
Other	33,008	37,980
	<u>\$ 2,251,649</u>	<u>\$ 2,774,405</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 14. Long Term Debt

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

Dewey Place and Keen Street

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

515 Rison Street

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

	December 31,	
	2016	2015
Financing for Dewey Place and Keen Street Renovation:		
Note payable in monthly installments of \$6,966, including principal and interest through August 1, 2018, with a balloon payment equal to the remaining balance due. The interest rate was at 3.35% through July 31, 2015 but modified as described above.	\$ 368,340	\$ 439,609
Financing for Rison Street Acquisition:		
Note payable in monthly installments of \$3,415, including principal and interest through August 1, 2019. The interest rate was at 3.45% through July 31, 2015 but was modified as described above.	\$ 95,321	\$ 132,794
Total notes payable	463,661	572,403
Less current portion	(112,705)	(108,183)
Total long-term notes payable	<u>\$ 350,956</u>	<u>\$ 464,220</u>

Note modification agreements were executed in 2013 for the two notes listed above. Lower fixed interest rates were established for both notes for the remaining terms of each beginning in June. The debt is held by Bellevue, Inc., the component unit with a fiscal year ended on December 31. Amounts are presented as of December 31, of each year ending within the June 30, 2017 and 2016 fiscal years. Notes payable at December 31, 2015 and 2014 were as follows:

Future scheduled maturities of long-term notes payable at December 31, 2015 were as follows:

	Scheduled Maturities
2017	\$ 112,705
2018	334,234
2019	16,722
	<u>\$ 463,661</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 15. Commitments

Lease Commitments

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

Otherwise, the Agency has a three-year operating lease commitment for office space in the River Run office complex which runs through September 30, 2017. The remaining lease obligation for minimum lease payments is as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2017	\$ 30,569
June 30, 2018	10,190
	<u>\$ 40,759</u>

Facilities with one year or less remaining on the lease for office space and other facilities needed to carry out its various programs including the Newton Street vehicle station (\$775 per month), property located at 159 Deer Run Road (\$2,825 per month), and the Agency's Gretna office (\$1,675 per month). Facilities are located primarily in Danville, Virginia with the exception of one facility located in Gretna, Virginia.

Note 16. Contingent Liabilities

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

At June 30, 2017 and 2016, there were no matters of litigation involving Danville-Pittsylvania Community Services which would materially affect the organization's financial position should any court decision or pending matter be determined unfavorable to the organization.

Note 17. Risk Management

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

See Independent Auditors' Report

Note 17. Risk Management (continued)

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

Note 18. Related Party Transactions

As previously stated, Bellevue, Inc. owns and operates real estate leased by the Agency. The Agency is the sole tenant of the properties owned by Bellevue, Inc. (see Note 14 – Long Term Debt and 15 - Commitments) and handles all of Bellevue, Inc.'s administrative responsibilities. As a blended component unit, the intercompany rent is not reported, but Agency payments to Bellevue, Inc. for leases for the years ended June 30, 2017 and 2016 totaled \$324,460 for each year.

Note 19. Subsequent Events

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through November 14, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>Federal Catalogue Number</u>	<u>Schedule 1 Expenditures of Federal Awards</u>
<u>U.S. Department of Health and Human Services</u>		
<u>Passed through Virginia Department of Behavioral Health and Developmental Services</u>		
* Substance Abuse Prevention and Treatment Block Grant	93.959	\$ 710,165
Mental Health Block Grant	93.958	80,670
Special Initiative for State Mental Health Authorities to Address the Impact of the Economic Downturn Through Employment Development Federal Contract Number HHSS2832007000201	(1) 93.243	137,562
<u>U.S. Department of Education</u>		
<u>Passed through Virginia Department of Behavioral Health and Developmental Services</u>		
Part C Early Intervention for Infants & Toddlers With Disabilities & Their Families	84.181	95,990
<u>Passed through Virginia Department of Health</u>		
Healthy Families Danville - Pittsylvania County Maternal, Infant, and Early Childhood Visiting Project	93.505	126,181
Department of Criminal Justice Services - Steps to Success	16.738	76,661
Department of Juvenile Justice, Title II Community Partnership for Academic Success	16.540	34,051
<u>U.S. Department of Agriculture</u>		
Child and Adult Food Program	10.558	20,824
<u>U.S. Department of Transportation</u>		
Federal Transit Administration Section 5310 Funds Enhanced Mobility for Seniors and Individuals with Disabilities FTA Grant numbr VA-2016-024-00	20.513	<u>44,422</u>
Total Expenditures		<u>\$ 1,326,526</u>

* Indicates Major Program

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

The Schedule of Expenditure of Federal Awards is prepared on the accrual basis of accounting as it is recognized to represent accounting principles generally accepted in the United States of America for governmental health care reporting entities. As such, the Agency recognizes expenditures when the underlying obligation is incurred. Expenditures relating to allowable costs funded by multiple funding sources are recognized based in the same proportion as federal funds bear to the total funds available.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Schedule 2

Summary of Audit Results

1. The auditors' report expresses an unmodified opinion on the financial statements of Danville-Pittsylvania Community Services.
2. No significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Danville-Pittsylvania Community Services were disclosed during the audit.
4. No audit findings relative to the major federal award program of Danville-Pittsylvania Community Services are reported in this Schedule.
5. Both the 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 Governmental Auditing Standards and the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with The Uniform Guidance were unqualified.
6. The program tested as a major program was the Substance Abuse Prevention and Treatment Block Grant from the U.S. Department of Health and Human Services, passed through the Virginia Department of Health.
7. The threshold for distinguishing Type A and B programs was \$750,000.
8. Danville-Pittsylvania Community Services was determined to be a low-risk auditee.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

FEDERAL ASSISTANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

Schedule 2

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
U.S. Department of Health and Human Services Passed through Virginia Department of Behavioral Health and Developmental Services Substance Abuse Prevention and Treatment Block Grant	None	None

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Years Ended June 30, 2016 and 2015

Schedule 3

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2016	2015
Total Pension Liability		
Service costs	\$ 861,062	\$ 874,669
Interest	1,567,108	1,489,528
Difference between expected and actual experience	36,740	(598,773)
Benefit payments, including refunds of employee contributions	(687,778)	(626,486)
Net change in total pension liability	1,777,132	1,138,938
Total pension liability - beginning	22,731,147	21,592,209
Total pension liability - ending	<u>\$ 24,508,279</u>	<u>\$ 22,731,147</u>
Plan fiduciary net position		
Contributions - employer	\$ 469,186	\$ 464,029
Contributions - employee	437,985	441,498
Net Investment Income	441,999	1,077,483
Benefit payments, including refunds of employee contributions	(687,778)	(626,486)
Administrative expenses	(15,004)	(14,287)
Other expenses	(185)	(227)
Net change in plan fiduciary net position	646,203	1,342,010
Plan fiduciary net position - beginning	24,599,957	23,257,947
Plan fiduciary net position - ending	<u>\$ 25,246,160</u>	<u>\$ 24,599,957</u>
Plan fiduciary net position as a percentage of total pension liability	<u>111.06%</u>	<u>113.93%</u>
Covered-employee payroll	<u>\$ 9,350,336</u>	<u>\$ 8,720,572</u>
Net pension liability .as a percentage of covered-employee payroll	<u>41.13%</u>	<u>40.39%</u>

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

NOTES TO SCHEDULE OF CHANGE IN NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2016

Schedule 3

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employees Payroll	Contribution as a % of Covered Employees Payroll
2016	\$ 469,186	\$ 469,186	\$ -	\$ 9,350,336	5.02%
2015	\$ 464,029	\$ 464,029	\$ -	\$ 8,720,572	5.32%
2014	\$ 470,596	\$ 470,596	\$ -	\$ 8,607,960	5.47%
2013	\$ 612,755	\$ 612,755	\$ -	\$ 8,428,997	7.27%
2012	\$ 593,469	\$ 593,469	\$ -	\$ 8,233,253	7.21%
2011	\$ 773,668	\$ 773,668	\$ -	\$ 7,725,811	10.01%
2010	\$ 732,422	\$ 732,422	\$ -	\$ 7,519,061	9.74%
2009	\$ 719,702	\$ 719,702	\$ -	\$ 7,307,673	9.85%
2008	\$ 696,880	\$ 696,880	\$ -	\$ 7,152,378	9.74%

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

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

Update mortality table

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

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

Insurance Coverage	Insurance Company Agent Policy Number	Policy Period
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Danville Pittsylvania Community Services

Automobile Liability Physical Damage	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2016 to 6/30/2017
Public Officials / Directors & Officers Liability	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2016 to 6/30/2017
Medical Malpractice	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2016 to 6/30/2017
Crime	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2016 to 9/1/2017
Inland Marine	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2016 to 9/1/2017
Property (includes coverage for property of Bellevue, Inc.)	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2016 to 9/1/2017
Workers Compensation	Company - Vaco Risk Management Programs Agent - N/A Policy Number - # VA-DA-200C-17	7/1/2016 to 7/1/2017

Piney Ridge Apartments Corporation

Directors & Officers Liability	Company - U.S. Liability Insurance Company Agent - Royal Oak Underwriters, Inc. Policy Number - # NDO1049547L	8/10/2016 to 8/10/2017
Crime	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1568964	11/7/2016 to 11/7/2017
Property	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1568964	11/7/2016 to 11/7/2017
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1568964	11/7/2016 to 11/7/2017

Schedule 4

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

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

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

Insurance Coverage	Insurance Company Agent Policy Number	Policy Period
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Piney Ridge Apartments Corporation II

Directors & Officers Liability	Company - U.S. Liability Insurance Company Agent - Royal Oak Underwriters, Inc. Policy Number - # NDO1049547L	8/10/2016 to 8/10/2017
Crime	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK11488859	6/28/2016 to 6/28/2017
Property	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK11488859	6/28/2016 to 6/28/2017
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK11488859	6/28/2016 to 6/28/2017

Ashlawn View, Inc.

Directors & Officers Liability	Company - ACE American Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # NFPVAF112755642	10/17/2016 to 10/17/2017
Blanket Fidelity Bond	Company - National Grange Mutual Agent - Virginia Commonwealth Corporation Policy Number - # F1206534	8/13/2016 to 8/13/2017
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1552029	11/8/2016 to 11/8/2017

Schedule 4

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

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

OFFICERS, DIRECTORS, AND MANAGEMENT

For the Year Ended June 30, 2017

Schedule 5

Board of Directors

Officers

Robert W. Warren - Chairperson

Ronald Merricks - Member-at-Large

Shelby J. Irving - Vice Chairperson

Dr. Frank Wickers - Member-at-Large

Jessie Barksdale - Secretary

Directors

Dr. Julie Brown - Past Chairperson

Michael Mondul

Gwendolyn Edwards

Jacqueline Satterfield

Rufus Fuller III

Faith Stamps

Anne T. Geyer

Kimberly Van DerHyde

Gracie Mays

Management

Executive Director

James F. Bebeau, LPC

Director of Finance

Mary Beth Clement, CPA

Division Directors

Sandy Irby - Behavioral Health Services

Sara Craddock - Intellectual Disability Services

Amanda Oakes - Prevention Services Director

Cindy Lewis - Human Resources Director

Jennifer Thompson - Acting Compliance and Information Systems Director

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

ORGANIZATIONAL CHART
For the Year Ended June 30, 2017

Schedule 6

