
PIEDMONT COMMUNITY SERVICES

Martinsville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2008

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ VERONA □ CHRISTIANSBURG



PIEDMONT COMMUNITY SERVICES
Martinsville, Virginia

FINANCIAL REPORT - YEAR ENDED JUNE 30, 2008

Table of Contents

	<u>Page</u>
Organization of Directors and Key Administrative Staff	i
Organization Chart	ii
Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-6
 <i>Basic Financial Statements:</i>	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements.....	10-21
 <i>Supplementary Information:</i>	
<u>Combining Financial Statements:</u>	
Combining Statement of Net Assets.....	22-23
Combining Statement of Revenues, Expenses and Changes in Net Assets	24-25
Combining Statement of Cash Flows	26-27
<u>Supporting Schedule:</u>	
Schedule of Insurance	28
<u>Other Information:</u>	
Client Statistics.....	29
 <i>Compliance:</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30-31
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	32-33
Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35
Schedule of Prior Year Findings and Questioned Costs	36

PIEDMONT COMMUNITY SERVICES

Organization of Directors

Carolyn Lackey, Chair
Nancy Sprinkle, 1st Vice-Chair
Diane Lovell, 2nd Vice-Chair

Franklin County

Diane Lovell
Kay Potter
Charles Wagner

Henry County

Vicky Gilley
Gloria Kirby
Lisa Lyle
Tony Millner
Kay Smith
Fred Spencer

Patrick County

Astrid Cole
Susan Corbett

City of Martinsville

Carolyn Lackey
Debbie Poirier

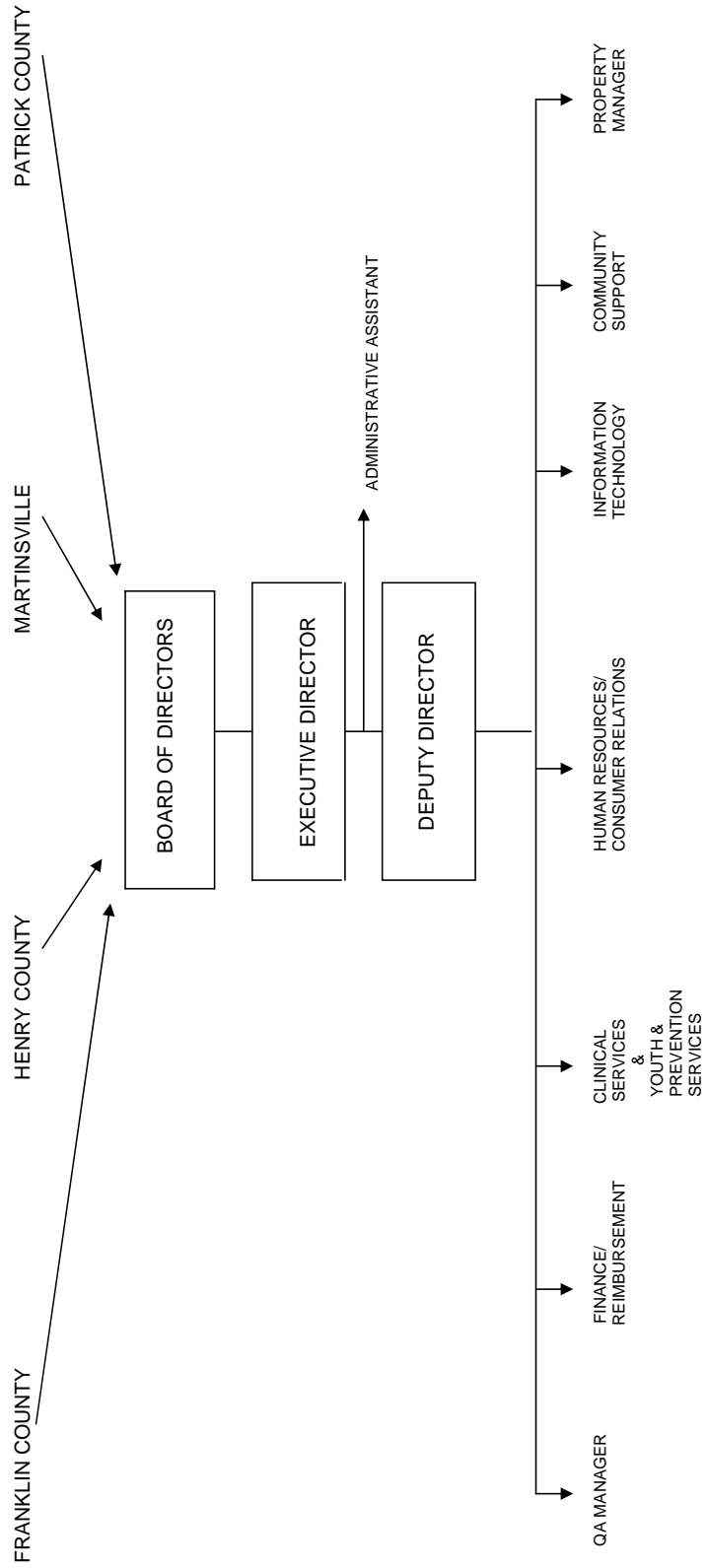
At-Large

Robert Albanese
Ray Dietz
Nancy Sprinkle

Key Administrative Staff

James Tobin	Executive Director
Patrick Ephriam	Deputy Executive Director
Caroline Pilson	Director of Finance
Dr. James Rountree	Director of Human Resources
Kippy Cassell	Director of Information Technology
Betty Jewell	Director of Clinical Services
Brian "Greg" Preston	Director of Community Support

PIEDMONT COMMUNITY SERVICES
ORGANIZATION CHART



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
PIEDMONT COMMUNITY SERVICES
MARTINSVILLE, VIRGINIA

We have audited the statement of net assets of Piedmont Community Services and the related statements of revenues, expenses and changes in net assets, and cash flows, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Piedmont Community Services' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Organization's 2007 financial statements dated November 7, 2007, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Piedmont Community Services, as of June 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of the Piedmont Community Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Piedmont Community Services basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Piedmont Community Services. This schedule, the combining financial statements and the other supporting schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Robinson, Turner, Co. Associates

Charlottesville, Virginia
December 12, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the Piedmont Community Services Board's financial performance provides an introduction and overview to the financial statements for the fiscal year ended June 30, 2008.

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

Revenue

CSB disabilities of Mental Health, Mental Retardation, and Substance Abuse fourth quarter operating revenues prior to fee transfers or adjustments are as follows:

<u>Disability</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Mental Health	\$ 8,283,298	\$ 7,167,167	\$ 7,237,796
Mental Retardation	5,079,822	4,174,776	4,438,237
Substance Abuse	<u>2,339,807</u>	<u>2,292,123</u>	<u>2,193,086</u>
Total	\$ <u>15,702,927</u>	\$ <u>13,634,066</u>	\$ <u>13,869,119</u>

Medicaid remains the largest source of fee revenue for PCS, with FY08 collections totaling 8.8 M.

PCS received \$27,595 in one-time grants from KOVAR and Community Foundation to reimburse expenses relating to dental care for the MR population. (Dental care is not a Medicaid covered service.) Another \$9,859 was awarded from KOVAR to purchase new furniture at Wanda Jones Place.

The County of Franklin awarded a \$25,000 annual increase in local match allocation in FY08 to assist in covering facility costs at the county's new clinic on Technology Drive.

Base funding for Substance Abuse residential services was increased by \$40,062 in FY08, increasing capacity to purchase additional services at SA treatment facilities.

Summary of Operations and Changes in Net Assets

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Operating revenue	\$ 9,578,416	\$ 8,834,694	\$ 8,424,026
Operating expenses	14,528,828	13,087,890	12,551,661
Operating income (loss)	(4,950,412)	(4,253,196)	(4,127,635)
Non-operating income (loss)	5,673,713	5,464,000	4,920,123
Capital contributions	<u>518,800</u>	<u>-</u>	<u>-</u>
Change in Net Assets	\$ <u>1,242,101</u>	\$ <u>1,210,804</u>	\$ <u>792,488</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Operations and Changes in Net Assets (continued)

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

Overall personnel costs increased due to an 8% cost of living salary increase as part of a long range plan to raise pay scales to a more competitive level. Effective July 1, 2007, PCS began participation in the Virginia Retirement System. PCS contributes 6.5% of annual salary to VRS and employees have a match requirement of 5%.

In May 2008, PCS reclassified the FMLA status of a significant portion of employees from Exempt to Non-Exempt. During FY09 management will study the accrual of compensatory time to determine best practices for overtime authorization, payment options, and effects on long term liability.

Condensed Cash Flow

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Cash flows provided (used) by operating activities	\$ (4,136,122)	\$ (4,682,698)	\$ (3,711,966)
Cash flows provided (used) by non-capital and related financing activities	5,412,950	5,339,100	4,913,434
Cash flows provided (used) by capital and related financing activities	(905,697)	(330,286)	(189,611)
Cash flows provided (used) by investing activities	<u>134,834</u>	<u>185,861</u>	<u>103,312</u>
Net cash increase (decrease)	\$ 505,965	\$ 511,977	\$ 1,115,169
Cash and cash equivalents, beginning of year	<u>3,431,801</u>	<u>2,919,824</u>	<u>1,804,655</u>
Cash and cash equivalents, end of year	<u>\$ 3,937,766</u>	<u>\$ 3,431,801</u>	<u>\$ 2,919,824</u>

Consumer fees, operating expenses and personnel expenses determine the operating activities line of the cash flow report. \$189,104 was used to acquire capital assets such as vehicles, furniture and equipment. \$96,175 was paid on mortgages. \$63,655 was paid as interest expense. Cash accumulations in excess of board reserve are anticipated to be drawn down as construction projects proceed in FY09. Cash funds in combination with HUD grants will be used for the following active projects: Patrick County Clinic, Maynor Street Group Home, and Church Street Extension Group Home. In the coming year, PCS intends to convert client data and reimbursement to an electronic health records system. A letter of intent has been signed to purchase Credible Software under a 5 year contract.

Cash and cash equivalents consist of the following at June 30, 2008:

Cash on hand or established as petty cash	\$ 3,225
Deposits with banks	2,410,237
Certificate of deposit (Building Fund)	900,000
Deposits held for HUD projects	33,744
Investments - Local Government Investment Pool	<u>590,560</u>
Total cash and cash equivalents	<u>\$ 3,937,766</u>

Condensed Summary of PCS Statement of Net Assets

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
Assets			
Current assets	\$ 4,955,600	\$ 5,043,778	\$ 3,677,236
Restricted current assets	93,166	106,838	87,291
Capital assets	<u>8,498,427</u>	<u>5,274,543</u>	<u>5,412,164</u>
Total assets	<u>\$ 13,547,193</u>	<u>\$ 10,425,159</u>	<u>\$ 9,176,691</u>
Liabilities			
Current liabilities	\$ 1,489,639	\$ 1,331,080	\$ 1,217,139
Current restricted liabilities	93,166	106,838	87,291
Long term liabilities	<u>2,644,017</u>	<u>908,971</u>	<u>1,004,795</u>
Total liabilities	<u>\$ 4,226,822</u>	<u>\$ 2,346,889</u>	<u>\$ 2,309,225</u>
Net Assets			
Investment in capital assets, net of related debt	\$ 5,749,907	\$ 4,269,689	\$ 4,316,658
Restricted	7,791	7,483	5,828
Unrestricted	<u>3,562,673</u>	<u>3,801,098</u>	<u>2,544,980</u>
Total net assets	<u>\$ 9,320,371</u>	<u>\$ 8,078,270</u>	<u>\$ 6,867,466</u>

Net Assets may serve over time as a useful indicator of the CSB's financial position. The CSB's net assets exceeded liabilities by \$9 M, an increase of \$1.3 M from FY07.

Although not specifically designated in the restricted categories shown above on the balance sheet, PCS carried restricted cash balances exceeding \$277,527 from the Department of Mental Health for various targeted services including PATH homeless outreach, Federal SED, Prevention Project Treat, along with the regional contracts for Discharge Assistance and Acute Psychiatric bed days. These funds will be carried over to subsequent years with the same spending requirements.

PCS staff act as payee representative to 79 consumers, providing management of individual bank accounts totaling \$93,166 on June 30, 2008, reflected in the table above as restricted current assets. PCS will discontinue providing payee services to non-residential consumers with a phased out completion date targeted for January 2009. Restricted Net Assets of \$7,791 are the funds designated for renovation and repair of Scuffling Hill Group Home, a HUD funded site.

Long-Term Liabilities

Long-term liabilities consist of the following debt:

\$782,293 (less current portion \$78,181) payable to Carter Bank for Clay Street with final payment due August, 2016.

\$126,386 (less current portion \$24,349) payable to Carter Bank for Church Street Square Apartments with final payment due April 1/2013.

\$1,839,841 (less current portion \$1,973) payable to USDA for Technology Drive, Rocky Mount with final payment due April, 2047.

Capital Assets

PCS has long range building and property improvements as part of its management priorities. Investments in the cash reserves set aside for buildings totaled \$1,490,560 as of June 30, 2008.

Construction was completed May 2008 on the new Franklin County clinic office located on Technology Drive, Rocky Mount. Project costs totaled \$2.2 M. The vacated location on Court Street, Rocky Mount is being advertised for sale.

Wanda Jones Place, located on Maynor Street, Rocky Mount, was completed in FY08, and provides housing for 6 consumers. Because the construction was funded by HUD as 811 PRAC, residents receive tenant rental assistance based on income. Property located on Claiborne Avenue is now vacant and being advertised for sale.

In late December 2007, a major fire broke out at Church Street Square Apartments, Martinsville, which resulted in over \$250,000 damages and forced temporary relocation of 1/3 residents until remodeling was complete. Although PCS had no prior experience with a catastrophe of this nature, the efforts to ensure safety, adequate housing and temporary food and shelter for tenants was commendable.

Residential construction projects include a HUD funded group home project on Church Street Extension, Martinsville. FY08 costs to PCS for land and site prep was \$49,000. Also, \$1,800 was spent on site planning for a potential HUD funded Group Home on Church Street, Rocky Mount.

Construction began on the new Patrick County clinic office in Stuart. FY08 expenses totaled \$388,000. Estimated completion date is November 2008 with total project cost around \$1,500,000.

Summary

Piedmont Community Services' financial condition remained strong in fiscal year 2008, with growth in the future certain due to facility expansions and improved benefits designed to attract and retain employees.

- Basic Financial Statements -

PIEDMONT COMMUNITY SERVICES

Statement of Net Assets
At June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,937,766	\$ 3,431,801
Investments in common stocks	12,477	22,740
Accounts receivable, less allowance for uncollectibles	932,545	1,279,468
Due from other governments	69,512	39,918
Prepaid items	1,800	267,351
Security deposits	1,500	2,500
Total current assets	\$ 4,955,600	\$ 5,043,778
Restricted Current Assets:		
Client funds	93,166	106,838
Capital Assets:		
Property and equipment, less accumulated depreciation	8,498,427	5,274,543
Total assets	\$ 13,547,193	\$ 10,425,159
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 389,160	\$ 368,201
Compensated absences	987,024	859,901
Security and escrow deposits	8,952	7,095
Long-term debt, current portion	104,503	95,883
Total current liabilities	\$ 1,489,639	\$ 1,331,080
Current Liabilities Payable from Restricted Assets:		
Client funds	93,166	106,838
Long-term Liabilities:		
Long-term debt, less current portion	2,644,017	908,971
Total liabilities	\$ 4,226,822	\$ 2,346,889
Net Assets:		
Invested in capital assets, net of related debt	\$ 5,749,907	\$ 4,269,689
Restricted	7,791	7,483
Unrestricted	3,562,673	3,801,098
Total net assets	\$ 9,320,371	\$ 8,078,270

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

PIEDMONT COMMUNITY SERVICES

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Operating revenue:		
Net patient service revenue	\$ 9,578,416	\$ 8,834,694
Operating expenses:		
Salaries and benefits	\$ 10,708,536	\$ 9,773,507
Staff development	117,450	97,191
Facility	550,849	704,185
Supplies	347,086	206,910
Travel	498,820	468,138
Contractual and consulting	1,806,672	1,344,790
Depreciation	323,181	316,803
Other	176,234	176,366
Total expenses	\$ 14,528,828	\$ 13,087,890
Operating loss	\$ (4,950,412)	\$ (4,253,196)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	\$ 3,513,640	\$ 3,295,001
Federal government	1,395,051	1,390,718
Local governments	359,310	324,052
Rent	162,277	154,572
Investment income	134,834	185,861
Other	172,256	174,247
Interest expense	(63,655)	(60,451)
Net nonoperating income	\$ 5,673,713	\$ 5,464,000
Income before capital contributions	\$ 723,301	\$ 1,210,804
Capital contributions:		
Construction grant - federal government	518,800	-
Change in net assets	\$ 1,242,101	\$ 1,210,804
Net assets, beginning of year	8,078,270	6,867,466
Net assets, end of year	\$ 9,320,371	\$ 8,078,270

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

PIEDMONT COMMUNITY SERVICES

Statement of Cash Flows
Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 9,901,793	\$ 8,171,360
Payments to suppliers	(3,483,292)	(3,335,515)
Payments to and/or for employees	(10,554,623)	(9,518,543)
	\$ (4,136,122)	\$ (4,682,698)
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 5,253,284	\$ 4,999,722
Other	159,666	339,378
	\$ 5,412,950	\$ 5,339,100
Cash flows provided (used) by capital and related financing activities:		
Acquisition of capital assets	\$ (3,089,632)	\$ (179,183)
Debt proceeds	1,839,841	-
Principal payments on mortgages and loans payable	(96,175)	(90,652)
Payments for interest	(63,655)	(60,451)
Capital advance	503,924	-
	\$ (905,697)	\$ (330,286)
Cash flows provided (used) by investing activities:		
Investment income	\$ 134,834	\$ 185,861
	\$ 505,965	\$ 511,977
Net increase (decrease) in cash and cash equivalents	\$ 505,965	\$ 511,977
Cash and cash equivalents, beginning of year	3,431,801	2,919,824
Cash and cash equivalents, end of year	\$ 3,937,766	\$ 3,431,801
Cash flows provided (used) by operating activities:		
Operating loss:	\$ (4,950,412)	\$ (4,253,196)
Adjustments to reconcile excess of revenues over expenses to cash provided by operations:		
Depreciation	323,181	316,803
Changes in assets and liabilities:		
Accounts receivable	346,923	(688,671)
Due from other governments	(14,447)	(10,049)
Prepaid items	-	(156,354)
Security and escrow deposits	489	84
Accounts payable and accrued expenses	31,021	71,519
Compensated absences	127,123	37,166
	\$ (4,136,122)	\$ (4,682,698)

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Agency:

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

B. Reporting Entity:

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

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Organization's operations, and so data from these units are combined with data of the Organization. The Organization has the following blended component unit.

Scuffling Hill Housing, Inc. has been included as part of the reporting entity. This entity is a not-for-profit organization exempt under Section 501(c)(3) of the Internal Revenue Code, and was organized to own and operate facilities for handicapped individuals.

Maynor Street Housing, Inc. has been included as part of the reporting entity. This entity is a not-for-profit organization exempt under section 501(c)(3) of the Internal Revenue Code, and was organized to own and operate facilities for handicapped individuals.

Pebble Creek Housing, Inc. has been included as part of the reporting entity. This entity is a not-for-profit organization exempt under section 501(c)(3) of the Internal Revenue Code, and was organized to own and operate facilities for handicapped individuals.

C. Basis of Accounting:

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

D. Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

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

D. Financial Statement Presentation: (continued)

The Organization applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

E. Enterprise Fund Accounting:

Piedmont Community Services is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Organization utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

F. Use of Estimates:

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

G. Cash and Cash Equivalents:

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

H. Investments:

Investments are reported at fair value.

I. Client Accounts Receivable and Service Fee Revenue:

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

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

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

I. Client Accounts Receivable and Service Fee Revenue: (continued)

The vast majority of fees collected result from Medicaid billings. An allowance for doubtful client and other accounts has been estimated by management to approximate \$185,008 at June 30, 2008 and \$134,507 at June 30, 2007.

J. Capital Assets:

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

Estimated useful lives of capital assets are as follows:

Buildings	30 to 40 years
Improvements to buildings	10 to 40 years
Furniture, fixtures, equipment and vehicles	5 years

K. Restricted Assets:

The Organization segregates monies held on behalf of third parties (consumer funds) and restricted donations which have not yet been totally expended for their intended purposes.

L. Compensated Absences:

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

M. Budgetary Accounting:

The Organization follows these procedures in establishing its budgets.

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

The Organization's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second quarter. The final quarterly report is due by September 30 (unless extended), following the end of the fiscal year.

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

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

N. Operating and Nonoperating Revenues and Expenses:

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

O. Comparative Totals:

Comparative amounts are presented for informational purposes only. Certain amounts for the prior year have been reclassified to conform to the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

At year-end the deposits with banks 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 excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Of the bank balances no funds were uninsured and not collateralized in banks or savings and loans not qualifying under the Act. Deposits under the Act are considered insured since the Treasury Board is authorized to make additional assessments. The book value of deposits in banks was \$3,343,974 and the bank balances were \$3,925,288 at June 30, 2008.

Investments:

Statutes authorize the Organization to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, 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).

The following is a summary of cash and cash equivalents:

	<u>PCS</u>	<u>Component Units</u>	<u>Total</u>	<u>Total 2007</u>
Cash on hand and petty cash	\$ 3,225	\$ -	\$ 3,225	\$ 3,225
Deposits with banks	3,310,237	33,744	3,343,981	2,862,367
Investments-LGIP	590,560	-	590,560	566,209
Total	<u>\$ 3,904,022</u>	<u>\$ 33,744</u>	<u>\$ 3,937,766</u>	<u>\$ 3,431,801</u>

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Custodial Credit Risk (Investments):

The Organization's investments in Common Stocks consist of publicly held corporations and are held by the Organization or its broker in the Organization's name. These securities were donated to the Organization and are valued at \$12,477 at June 30, 2008 and \$22,740 at June 30, 2007.

Credit Risk of Debt Securities:

The Organization's investment policies allow the investment of funds in money market funds, repurchase agreements, the Commonwealth of Virginia Local Government Investment Pool, U.S. Treasury and agency securities and non-negotiable certificates of deposit. The Organization also accepts donations of equity securities. The Organization's rated debt investments at June 30, 2008 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investments					
Rated Debt Investments Value	Fair Quality Ratings				
	AAA/AAAm	AA	A	A1	Unrated
Virginia Local Government Investment Pool	\$ 590,560	\$ -	\$ -	\$ -	\$ -

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

NOTE 3 - ACCOUNTS RECEIVABLE:

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

	2008	2007
Virginia Department of Medical Assistance Services (Medicaid)	\$ 819,585	\$ 1,156,611
Direct client, third party and other	297,968	257,364
Total	\$ 1,117,553	\$ 1,413,975
Less: Allowance for uncollectibles	(185,008)	(134,507)
Net accounts receivable	\$ 932,545	\$ 1,279,468

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 4 - DUE FROM OTHER GOVERNMENTS:

The Organization has amounts due from other governments as follows:

	<u>PCS</u>	<u>Component Units</u>	<u>Total</u>	<u>2007 Total</u>
Commonwealth of Virginia				
Tobacco Grant	\$ 14,009	\$ -	\$ 14,009	\$ 11,408
HUD	-	14,877	14,877	4,890
Healthy Families	16,376	-	16,376	17,682
Day Care	-	-	-	1,640
Healthy Start	15,963	-	15,963	-
Drug-Free Communities Grant	5,027	-	5,027	1,038
Disabilities grant	3,260	-	3,260	3,260
Total	<u>\$ 54,635</u>	<u>\$ 14,877</u>	<u>\$ 69,512</u>	<u>\$ 39,918</u>

NOTE 5 - CAPITAL ASSETS:

Capital assets consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 517,261	\$ 283,337	\$ 1,800	\$ 798,798
Capital assets being depreciated:				
Building and improvements	\$ 6,327,212	\$ 3,076,424	\$ -	\$ 9,403,636
Furnishings and equipment	1,248,392	189,104	77,691	1,359,805
Total capital assets being depreciated	\$ 7,575,604	\$ 3,265,528	\$ 77,691	\$ 10,763,441
Less: Accumulated depreciation	<u>2,818,322</u>	<u>323,181</u>	<u>77,691</u>	<u>3,063,812</u>
Net capital assets being depreciated	<u>\$ 4,757,282</u>	<u>\$ 2,942,347</u>	<u>\$ -</u>	<u>\$ 7,699,629</u>
Net capital assets	<u>\$ 5,274,543</u>	<u>\$ 3,225,684</u>	<u>\$ 1,800</u>	<u>\$ 8,498,427</u>

NOTE 6 - LEASE COMMITMENTS:

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

Total rent expense for the years ended June 30, 2008 and 2007 totaled \$102,185 and \$83,460, respectively.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 7 - COMPENSATED ABSENCES:

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

Organization employees earn leave based on length of service. The Organization has outstanding accrued leave pay totaling \$987,024 at June 30, 2008 and \$859,901 at June 30, 2007.

NOTE 8 - LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Organization for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Long-Term Obligations:				
Notes payable	\$ 1,004,854	\$ 1,839,841	\$ 96,175	\$ 2,748,520

Details of long-term obligations at June 30, 2008 were as follows:

	<u>Balance</u>	<u>Current Portion</u>
Note payable to Carter Bank and Trust; payable in monthly installments of \$2,597 including interest at 6.63%, and adjusted annually each April to 80% of prime with a maximum rate of 12%, final payment due April 1, 2013, secured by Apartments at Church Street Square located in Martinsville, Virginia	\$ 126,386	\$ 24,349
Note payable to Carter Bank and Trust; payable in monthly installments of principal and interest in the amount of \$10,016 interest at 5.625% through August 2016, secured by property on Clay Street in Martinsville, Virginia	782,293	78,181
\$2,161,300 note payable to USDA; interest only through May 22, 2009, payable in monthly installments of \$9,402 beginning June 22, 2009 (including principal and interest) through April 22, 2047, interest at 4.125%, secured by property in Rocky Mount, Virginia - loan draws received through June 30, 2008	<u>1,839,841</u>	<u>1,973</u>
Total notes payable	<u>\$ 2,748,520</u>	<u>\$ 104,503</u>

The Organization is in compliance with federal arbitrage regulations.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 8 - LONG-TERM DEBT: (continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 104,503	\$ 132,851
2010	132,401	130,302
2011	139,398	123,305
2012	146,770	115,932
2013	147,107	108,193
2014-2018	498,791	440,783
2019-2023	190,701	373,419
2024-2028	234,300	329,820
2029-2033	287,867	276,253
2034-2038	353,680	210,440
2039-2043	434,541	129,579
2044-2047	399,922	33,184
Total	\$ 3,069,981	\$ 2,404,061
Less: Loan proceeds not yet received	<u>(321,461)</u>	
Net total	<u>\$ 2,748,520</u>	

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

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

The Organization has a line of credit with Carter Bank and Trust in the amount of \$400,000. The Organization did not draw on the line during fiscal year 2008 or fiscal 2007.

The Organization has approved the construction of a group home in Martinsville, Virginia. The estimated cost of the project totals \$550,000. \$399,100 of the project costs are anticipated to be funded through a HUD capital advance.

Proposed changes in Medicaid billing regulations related to case management may have a significant effect on the Organization's Medicaid revenues in future years.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 9 - COMMITMENTS AND CONTINGENCIES: (continued)

The balances remaining on outstanding construction contracts are as follows:

Technology Drive project	\$	102,735
Patrick County office facility		521,805
Pebble Creek group home		<u>362,200</u>
	\$	<u>986,740</u>

NOTE 10 - RISK MANAGEMENT:

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

NOTE 11 - PENSION PLANS:

Defined Benefit Pension Plan

A. Plan Description:

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

Effective July 1, 2007 Piedmont Community Services began participation in the Virginia Retirement System.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% to sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. 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.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 11 - PENSION PLANS: (continued)

A. Plan Description: (continued)

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 downloaded from their website at <http://www.varetire.org/Pdf/publications/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has not been assumed by the employer. In addition, the Organization is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Organization's contribution rate for the fiscal year ended June 30, 2008 was 6.50% of annual covered payroll.

C. Annual Pension Cost:

For fiscal year 2008, the Organization's annual pension cost of \$289,296 was equal to the Organization's required and actual contributions. The Organization does not assume the employee share.

The required contribution was set by the Virginia Retirement System using a standard rate for first time participant organizations. An actuarial valuation is scheduled to be performed as of June 30, 2009.

D. Funded Status and Funding Progress:

As of June 30, 2008, no actuarial valuations for the Organization have been made. Accordingly, the funded status of the plan and multi-year trend information is not available.

Defined Contribution Plan

The Organization maintains a defined contribution pension plan funded through insurance contracts. The plan is administered by the Equitable Life Assurance Company. The Organization may amend the plan through actions of the Board of Directors. Contributions to the plan may also be changed by the Board of Directors. All employees who opted out of participation in VRS who work regularly for at least 20 hours a week were covered by the plan through April 2008. Contributions were calculated at 6.5% of budgeted annual earnings and were paid by the Organization through April 2008. Vesting of benefits began after one year with full vesting after five years of continuous employment and plan participation. Effective May 1, 2008 PCS discontinued employer paid contributions to Equitable for those employees not participating in VRS, although all full-time salaried employees who did not initially join VRS still have the option to join VRS at their discretion. Total covered payroll for the year ended June 30, 2008 amounted to \$2,230,448 and \$5,727,921 for 2007. Contributions to the plan for the year ended June 30, 2008 were \$144,979 and \$472,554 for 2007. There were no contributions to the plan by employees.

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 12 - LOCAL FUNDS:

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

	<u>2008</u>	<u>2007</u>
Martinsville City	\$ 70,708	\$ 69,204
Henry County	126,473	122,789
Patrick County	78,479	76,194
Franklin County	82,900	55,115
Town of Rocky Mount	750	750
Total	<u>\$ 359,310</u>	<u>324,052</u>

NOTE 13 - NET PATIENT SERVICE REVENUES:

Net patient service revenues were derived from the following sources:

	<u>2008</u>	<u>2007</u>
Medicaid	\$ 8,652,625	\$ 7,840,023
Direct client	425,256	403,667
Other	500,535	591,004
Total	<u>\$ 9,578,416</u>	<u>8,834,694</u>

NOTE 14 - RENTAL INCOME:

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

	<u>2008</u>	<u>2007</u>
Rentals received	\$ 162,277	\$ 154,572
Cost of leased assets	1,617,264	1,138,865
Accumulated depreciation	403,237	360,514
Depreciation expense	44,109	36,500

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 15 - RESTRICTED NET ASSETS:

Restricted net assets consist of the net assets of the component units which exceed the capital assets net of related debt. These assets are considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization.

NOTE 16 - SUBSEQUENT EVENT:

In July, 2008 the Organization purchased property for a group home site at a cost of \$45,800.

- Supplementary Information -

- Combining Financial Statements -

PIEDMONT COMMUNITY SERVICES

Combining Statement of Net Assets
At June 30, 2008

Assets	Piedmont Community Services	Scuffling Hill Housing, Inc.
Current Assets:		
Cash and cash equivalents	\$ 3,904,022	\$ 8,648
Investments in common stocks	12,477	-
Accounts receivable, less allowance for uncollectibles	932,545	-
Due from other governments	54,635	-
Prepaid items	1,800	-
Security deposits	1,500	-
Total current assets	\$ 4,906,979	\$ 8,648
Restricted Current Assets:		
Client funds	93,166	-
Capital Assets:		
Property and equipment, less accumulated depreciation	7,567,066	386,497
Total assets	\$ 12,567,211	\$ 395,145
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 373,930	\$ -
Compensated absences	987,024	-
Security and escrow deposits	6,706	857
Long-term debt, current portion	104,503	-
Total current liabilities	\$ 1,472,163	\$ 857
Current Liabilities Payable from Restricted Assets:		
Client funds	93,166	-
Long-term Liabilities:		
Long-term debt, less current portion	2,644,017	-
Total liabilities	\$ 4,209,346	\$ 857
Net Assets:		
Invested in capital assets, net of related debt	\$ 4,818,546	\$ 386,497
Restricted	-	7,791
Unrestricted	3,539,319	-
Total net assets	\$ 8,357,865	\$ 394,288

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	Intercompany Eliminations	Total
\$ 5,935	\$ 19,161	\$ -	\$ 3,937,766
-	-	-	12,477
-	-	-	932,545
14,877	-	-	69,512
-	-	-	1,800
-	-	-	1,500
<u>\$ 20,812</u>	<u>\$ 19,161</u>	<u>\$ -</u>	<u>\$ 4,955,600</u>
-	-	-	93,166
484,052	60,812	-	8,498,427
<u>\$ 504,864</u>	<u>\$ 79,973</u>	<u>\$ -</u>	<u>\$ 13,547,193</u>
\$ 14,877	\$ 353	\$ -	\$ 389,160
-	-	-	987,024
1,389	-	-	8,952
-	-	-	104,503
<u>\$ 16,266</u>	<u>\$ 353</u>	<u>\$ -</u>	<u>\$ 1,489,639</u>
-	-	-	93,166
-	-	-	2,644,017
<u>\$ 16,266</u>	<u>\$ 353</u>	<u>\$ -</u>	<u>\$ 4,226,822</u>
\$ 484,052	\$ 60,812	\$ -	\$ 5,749,907
-	-	-	7,791
4,546	18,808	-	3,562,673
<u>\$ 488,598</u>	<u>\$ 79,620</u>	<u>\$ -</u>	<u>\$ 9,320,371</u>

PIEDMONT COMMUNITY SERVICES

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

	<u>Piedmont Community Services</u>	<u>Scuffling Hill Housing, Inc.</u>
Operating revenue:		
Net patient service revenue	\$ 9,578,416	\$ -
Operating expenses:		
Salaries and benefits	\$ 10,708,536	\$ -
Staff development	117,450	-
Facility	598,554	22,886
Supplies	347,028	58
Travel	498,820	-
Contractual and consulting	1,806,672	-
Depreciation	304,070	11,790
Other	175,765	-
Total expenses	<u>\$ 14,556,895</u>	<u>\$ 34,734</u>
Operating (loss)	<u>\$ (4,978,479)</u>	<u>\$ (34,734)</u>
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	\$ 3,513,640	\$ -
Federal government	1,395,051	-
Local governments	359,310	-
Rent	139,991	22,286
Investment income	134,405	234
Other	149,238	732
Interest expense	(63,655)	-
Net nonoperating income	<u>\$ 5,627,980</u>	<u>\$ 23,252</u>
Income before capital contributions	\$ 649,501	\$ (11,482)
Capital contributions:		
Construction grants	<u>50,000</u>	<u>-</u>
Change in net assets	\$ 699,501	\$ (11,482)
Net assets, beginning of year	<u>7,658,364</u>	<u>405,770</u>
Net assets, end of year	<u><u>\$ 8,357,865</u></u>	<u><u>\$ 394,288</u></u>

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	Intercompany Eliminations	Total
\$ -	\$ -	\$ -	\$ 9,578,416
-	-	-	10,708,536
8,834	-	(79,425)	117,450
-	-	-	550,849
-	-	-	347,086
-	-	-	498,820
-	-	-	1,806,672
7,321	-	-	323,181
469	-	-	176,234
\$ 16,624	\$ -	\$ (79,425)	\$ 14,528,828
\$ (16,624)	\$ -	\$ 79,425	\$ (4,950,412)
-	-	-	3,513,640
-	-	-	1,395,051
-	-	-	359,310
-	-	-	162,277
-	195	-	134,834
22,286	-	-	172,256
-	-	-	(63,655)
\$ 22,286	\$ 195	\$ -	\$ 5,673,713
\$ 5,662	\$ 195	\$ 79,425	\$ 723,301
468,800	79,425	(79,425)	518,800
\$ 474,462	\$ 79,620	\$ -	\$ 1,242,101
14,136	-	-	8,078,270
\$ 488,598	\$ 79,620	\$ -	\$ 9,320,371

PIEDMONT COMMUNITY SERVICES

Combining Statement of Cash Flows
Year Ended June 30, 2008

	Piedmont Community Services	Scuffling Hill Housing, Inc.
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 9,901,793	\$ -
Payments to suppliers	(3,532,549)	(22,254)
Payments to and/or for employees	(10,554,623)	-
Total cash flows provided (used) by operating activities	\$ (4,185,379)	\$ (22,254)
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 5,253,284	\$ -
Other	104,628	23,018
Total cash flows provided (used) by noncapital and related financing activities	\$ 5,357,912	\$ 23,018
Cash flows provided (used) by capital and related financing activities:		
Acquisition of capital assets	\$ (2,552,676)	\$ -
Debt proceeds	1,839,841	-
Principal payments on mortgages and loans payable	(96,175)	-
Payments for interest	(63,655)	-
Construction grant/capital advance	50,000	-
Cash flows provided (used) by capital and related financing activities	\$ (822,665)	\$ -
Cash flows provided (used) by investing activities:		
Investment income	\$ 134,405	\$ 234
Net increase (decrease) in cash and cash equivalents	\$ 484,273	\$ 998
Cash and cash equivalents, beginning of year	3,419,749	7,650
Cash and cash equivalents, end of year	\$ 3,904,022	\$ 8,648
Cash flows provided (used) by operating activities:		
Operating income (loss)	\$ (4,978,479)	\$ (34,734)
Adjustments to reconcile excess of revenues over expenses to cash provided by operations:		
Depreciation	304,070	11,790
Changes in assets and liabilities:		
Accounts receivable	346,323	600
Due from other governments	(14,447)	-
Security and escrow deposits	(1,000)	100
Accounts payable and accrued expenses	31,031	(10)
Compensated absences	127,123	-
Cash flows provided (used) by operating activities	\$ (4,185,379)	\$ (22,254)

Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.	Intercompany Eliminations	Total
\$ -	\$ -	\$ -	\$ 9,901,793
(7,914)	-	79,425	(3,483,292)
-	-	-	(10,554,623)
<u>(7,914)</u>	<u>-</u>	<u>79,425</u>	<u>(4,136,122)</u>
\$ -	\$ -	\$ -	\$ 5,253,284
32,020	-	-	159,666
<u>32,020</u>	<u>-</u>	<u>-</u>	<u>5,412,950</u>
\$ (476,497)	\$ (60,459)	\$ -	\$ (3,089,632)
-	-	-	1,839,841
-	-	-	(96,175)
-	-	-	(63,655)
<u>453,924</u>	<u>79,425</u>	<u>(79,425)</u>	<u>503,924</u>
<u>(22,573)</u>	<u>18,966</u>	<u>(79,425)</u>	<u>(905,697)</u>
\$ -	\$ 195	\$ -	\$ 134,834
\$ 1,533	\$ 19,161	\$ -	\$ 505,965
<u>4,402</u>	<u>-</u>	<u>-</u>	<u>3,431,801</u>
<u>5,935</u>	<u>19,161</u>	<u>-</u>	<u>3,937,766</u>
\$ (16,624)	\$ -	\$ 79,425	\$ (4,950,412)
7,321	-	-	323,181
-	-	-	346,923
-	-	-	(14,447)
1,389	-	-	489
-	-	-	31,021
-	-	-	127,123
<u>(7,914)</u>	<u>-</u>	<u>79,425</u>	<u>(4,136,122)</u>

- Supporting Schedule -

PIEDMONT COMMUNITY SERVICES

Schedule of Insurance

At June 30, 2008

Insurance Coverages

Insurance Company	Policy No.	Policy Period	Annual Policy Cost	Insurance Coverage	Deductible
Virginia Association of Counties Risk Pool	PI-076A-08	7/1/07 6/30/08 	\$ 31,280	Automobile	
				Liability/Comprehensive and Collision	\$ 2,000,000
				Medical payments	5,000 500
Travelers Insurance Company	BM21-3668A824	 	1,061	Boiler and machinery, direct damage	ACV 1,000
Virginia Association of Counties Risk Pool	PI-076A-08	7/1/07 6/30/08	2,619	Employee dishonesty	250,000 250
		7/1/07 6/30/08 	13,417	Real property, personal property, 80% co-insurance	7,300,000 500
				Personal property	1,400,000 -
		 	1,359	Electronic data processing	
				Hardware, software	380,000 500
				Extra expense/business income	400,000 -
		 	18,506	General liability	
				Per occurrence	2,000,000 -
				Medical	
				Per person	5,000 -
				Employee benefits	2,000,000 -
Auto-Owners	3507005607	 	1,109	Building & contents - Rich Acres	331,030 250
Scottsdale	OPS0048752	11/18/2007 11/18/2008 	57,257	Medical malpractice	
				Per occurrence	2,000,000 1,000
				Aggregate	4,000,000 1,000
Philadelphia	PHSD321922	4/17/08 4/17/07	3,727	Public Officials Liability	1,000,000 1,000
				Employment practice	1,000,000 10,000
Virginia Municipal League	614	7/1/07 6/30/08	66,623	Workers compensation	
				Each accident	1,000,000 -
				Disease	1,000,000 -
				Disease - each employee	1,000,000 -

- Other Information -

PIEDMONT COMMUNITY SERVICES

Client Statistics - Last Seven Fiscal Years
Year Ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Unduplicated Clients Served							
Mental Health	2,935	3,407	3,472	3,303	3,267	3,235	3,367
Mental Retardation	498	474	464	415	406	416	379
Substance Abuse	696	852	886	790	870	960	1,135
Areas Outside Program Area	1,348	N/A	N/A	N/A	N/A	N/A	N/A

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE BOARD OF DIRECTORS
PIEDMONT COMMUNITY SERVICES
MARTINSVILLE, VIRGINIA

We have audited the financial statements of Piedmont Community Services, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Board and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Piedmont Community Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Piedmont Community Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Piedmont Community Services' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Piedmont Community Services' financial statements are free of 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*.

This report is intended for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Co. Associates

Charlottesville, Virginia
December 12, 2008

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF DIRECTORS
PIEDMONT COMMUNITY SERVICES
MARTINSVILLE, VIRGINIA

Compliance

We have audited the compliance of Piedmont Community Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Piedmont Community Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Piedmont Community Services' management. Our responsibility is to express an opinion on Piedmont Community Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Piedmont Community Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Piedmont Community Services' compliance with those requirements.

In our opinion, Piedmont Community Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Piedmont Community Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Piedmont Community Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Piedmont Community Services' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, other within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, & Associates

Charlottesville, Virginia
December 12, 2008

PIEDMONT COMMUNITY SERVICES

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>		
Direct payments:		
Child and Adult Care Food Program	10.558	\$ 48,038
Community Facilities Loans and Grants	10.766	<u>1,889,841</u>
Total Department of Agriculture		<u>\$ 1,937,879</u>
<u>Department of Health and Human Services</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
PATH	93.150	\$ 11,534
Consolidated Knowledge Development and Application Program	93.230	5,775
Mental Health Block Grant	93.958	349,404
Substance Abuse Prevention and Treatment Block Grant	93.959	<u>843,578</u>
Total Department of Health and Human Services		<u>\$ 1,210,291</u>
<u>Department of Education</u>		
Pass-Through Payments:		
Virginia Department of Education:		
Early Intervention - Part C	84.181	<u>\$ 141,477</u>
Total expenditures of federal awards		<u>\$ 3,289,647</u>

This schedule is presented on the cash basis of accounting and includes the federal grant activity of Piedmont Community Services. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

PIEDMONT COMMUNITY SERVICES

Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants
93.959	Substance Abuse Prevention and Treatment Block Grant

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

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

PIEDMONT COMMUNITY SERVICES

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2008

There were no items reported.