MOUNT ROGERS COMMUNITY SERVICES

FINANCIAL REPORT

June 30, 2022

CONTENTS

INTRODUCTORY SECTION

MOUNT ROGERS COMMUNITY SERVICES

DIRECTORY OF PRINCIPAL OFFICIALS
For Year Ended June 30, 2022

Officers

Ms. Mary Coulson – Chairperson

Ms. Joanne Groseclose – Vice Chairperson

Ms. Susan Sneed – Treasurer

Ms. Kathy Havens – Secretary

Board of Directors

Bland County
Ms. Kathy Havens

Carroll County
Ms. Mary Coulson
Mr. Gerald Goad
Ms. Sandy Worrell

City of Galax
Ms. Susie Garner

Grayson County
Ms. Kathy Cole
Ms. Teena Bishop

Smyth County
Ms. Joanne Groseclose
Ms. Susie Jennings
Ms. Kris Ratliff
Ms. Susan Sneed

Wythe County
Ms. Barbara Bartnik
Mr. Angeline Lloyd
Mr. Jamie Smith

Officials

Sandy Bryant .... Executive Director

Patty Belcher .... Chief Financial Officer

Bob Gordon .... Chief Human Resources Officer

Carolyn Dankowski .... Chief Manufacturing Officer

KJ Holbrook .... Chief Clinical Officer

Kathy Cressel .... Director of Executive Office Operations

Wendy Gullion .... Chief Residential Officer

Jason Hash .... Director of Nursing

Kim Wells .... Director of Nurse Practicioners

Dr. Bobby Miglani .... Chief Medical Officer

Samantha Crockett .... Director of BH Prevention Wellness Services

Lakesha Mayes .... Director of Grant Writing and Agency Advancement

Laura Davis .... Chief Continuous Quality Improvement Officer

Logan Nester .... Director of Communications and Public Relations

Mount Rogers
COMMUNITY SERVICES

Sandy Bryant Chief Executive Officer

Kayla Fisher Coordinator of Executive Office Operations

Rita Viars Executive Assistant

Dr. Bobby Miglani Chief Medical Officer

KJ Holbrook Chief Clinical Officer

Patty Belcher Chief Financial Officer

Bob Gordon Chief Human Resources Officer

Laura Davis Chief Continuous Quality Improvement Officer

Wendy Gullion Chief Residential Officer

Carolyn Dankowski Chief Mfg. Officer

Samantha Crockett Director of BH Prevention Wellness Services

Logan Nester Director of Com. and Public Relations

Lakesha Mayes Director of Grant Writing & Agency Advancement

Kathy Cressel Director of Executive Operations

Jason Hash Director of Nursing

Kim Wells Director of NPs

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FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mount Rogers Community Services
Wytheville, Virginia

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Mount Rogers Community Services (the "Board"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board, as of June 30, 2022, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our ethical requirements, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Notes 1, 4, 6, and 9 to the financial statements, in 2022, the Board adopted new accounting guidance, *GASB Statement No. 87, Leases.* Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

Report on the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on the Financial Statements (Continued)

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The accompanying combining financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2022 on our consideration of the Board's 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 23, 2022

As management of the Mount Rogers Community Services (Agency), we offer readers of the financial statements this Management's Discussion and Analysis (MD&A)—a narrative overview and analysis of the Agency's financial activities for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements.

Following this MD&A are the basic financial statements of the Agency, 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, certain required supplementary information concerning the Agency's progress in funding its obligation to provide pension benefits to its employees, supplementary combining financial statements, and certain required supplementary information regarding the schedule of expenditures of federal awards is also included.

Mission Statement and Organization

Mount Rogers Community Services is dedicated to improving the quality of life for people with mental, physical and substance use intervention needs. The Agency is committed to respecting people's rights to live in their home communities by promoting hope for the future and providing services and supports that promote self-determination, empowerment, recovery, resilience, health, and the highest possible level of individual participation in all aspects of community life, including work, school, family, and other meaningful relationships. The Agency provides services to the residents of Bland, Carroll, Grayson, Smyth and Wythe counties and the City of Galax. The Agency has about thirty-five (35) service sites and maintains a presence in about thirty-two (32) schools throughout the catchment area.

Overview of Financial Statements

The basic financial statements of the Mount Rogers Community Services are presented in a proprietary fund format in accordance with an enterprise fund's principles. Enterprise funds may be used to report an activity for which a fee is charged to external users for goods and services. The Agency is encouraged by the State Department of Behavioral Health and Developmental Services (DBHDS) to maximize efforts to recover the costs of services rendered, through fees from individuals served, legally liable parties, and third-party coverage such as Medicaid, Medicare, and private insurance. Medicaid is the largest fee generator.

The Agency's financial statements are reported on the full accrual basis in accordance with accounting principles accepted in the United States of America (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Mount Rogers Community Services provides behavioral health care services in mental health, intellectual disabilities, and substance use intervention, placing the Agency in the health care arena. The Agency is a local government agency established under Chapter 5 of Title 37.2 of the Code of Virginia; therefore, in accordance with the Governmental Accounting Standards Board, activities are reported under reporting standards based upon the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

The Agency is funded partially by federal, state, and local funds. Pursuant to recommendations by DBHDS, local, state, and federal allocations (considered "subsidies" as defined by GASB and DBHDS) are presented as non-operating revenues in the financial statements.

Basic Financial Statements

The basic financial statements report information about the Agency using the accrual basis of accounting like those used by private-sector companies. All the current year's revenues and expenditures are recorded in the fiscal year in which the related activities occur, regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position, which are included in the basic financial statements, report information about the Agency and its activities in a way that helps the reader understand how the Agency has performed during the year.

The Statement of Net Position displays the Agency's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the cumulative changes in them (referred to as net position). A positive net position is one indicator that the Agency's operations over the years have resulted in positive financial performance. The Statement of Net Position serves the additional purpose of reflecting the balances left at year-end that are available for spending and any restrictions that apply to those balances. Other non-financial factors will need to be considered, such as changing individual needs and competition for services to assess the overall financial health of the Agency.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents the operating results of the Agency for the fiscal year ended June 30, 2022. This statement shows how the Agency performed in the given fiscal year (July 1 to June 30), giving the reader a general breakdown of operations by the main sources of income and the main spending categories. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Changes in net position (increases and decreases) represent one metric by which to measure the financial health of the Agency and identify whether its financial position is improving or deteriorating.

A third statement, the Statement of Cash Flows, identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the Agency. The Statement of Cash Flows, when taken together with the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, provides the reader with a complete snapshot of the financial condition of the Agency as of June 30, 2022.

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's progress in funding its obligations. These obligations include providing pension benefits and other post-retirement benefits to its employees, supplementary combining financial statements, and certain required supplementary information regarding the schedule of expenditures of federal awards.

During the current year, the Agency adopted Governmental Accounting Standards Board, Statement 87. This statement requires the recognition of all lease assets and liabilities over 12 months in length to be recorded as liabilities and right of use assets.

Component Units

Governmental Accounting Standards Board Statement No. 14 states the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is the primary benchmark for inclusion in a governmental financial reporting entity. An entity is considered fiscally dependent if it cannot (a) determine and modify its budget; (b) establish its rates, tax levies or charges; and (c) issue bonded debt, without the approval or modification of another government. The Agency has determined two entities meet the requirements for inclusion in the Mount Rogers Community Services' financial statements.

The first component unit included as part of these financial statements is Mount Rogers Community Services, Inc., (MRCSI) a non-profit corporation established in the late 1970's as a financing requirement with the Virginia Housing Development Authority. The debt has been satisfied and the corporation ended its contract with the U.S. Department of Housing and Urban Development (HUD) for Section 8 housing in March 2021. The corporation now acts as a conduit for fundraising by using its 501(c)(3) status from the Internal Revenue Service to solicit donations that will be tax-deductible for the donor. The corporation also holds real estate interests rented to Mount Rogers Community Services for operations of programs. Any loans for the procurement of property are held by the Corporation. A separate financial statement is prepared for this component unit.

The other component unit included in the financial statements is the Employee Benefit Trust. The Trust was established in 1990 when the Agency began to self-insure employees' medical coverage. The Trust expanded its use to include operation of the Agency's Humanitarian Fund, wellness activities, and various other employee benefits such as an expanded sick leave benefit. During FY 2016, the Agency transitioned from a self-insured health insurance program to the Commonwealth of Virginia's The Local Choice (TLC). Members of the TLC program share significant purchasing power which reduces administrative costs, and shared claims experience offers financial protection.

Fiscal Agent Activities

The Agency acts as a fiscal agent for the Southwestern Virginia Board (SWVAB). As fiscal agent, the Agency acts on behalf of this entity to perform various financial duties. These activities are segregated and reported in a separate column in the combining statements so the reader can easily identify the fiscal agent activities.

The SWVAB receives funding from the State and Federal Governments to administer programs for the Region. The SWVAB received $252,627 in State Mental Health Acute Care Funds, $100,000 in Mental Health Recovery Funds, $3,880,580 in Mental Health Regional Discharge Assistance Program Funds and $115,000 in Substance Use Disorder Community Detoxification Program Funds. In addition, the SWVAB received $75,000 in Federal Mental Health Block Grant Funds.

Financial Analysis

As noted earlier, net position may serve as a useful indicator of the Agency's financial position. At the close of the current fiscal year, the assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by $39,759,530. This amount of net position is a good indicator that the Agency's financial position is stable. The Agency's overall net position increased $8,458,487 from the prior fiscal year. This increase represents the amount of net revenue over net expenses, otherwise called the change in net position.

A substantial portion of the Agency's net position (44.8%) reflects its investment in capital assets, which includes land, buildings, machinery, equipment, and vehicles, less any related outstanding debt that was used to acquire those assets and net of related accumulated depreciation. The Agency uses these capital assets primarily to provide services to its participating localities; consequently, these assets are not available for future spending. Although the Agency's investment in capital assets is reported net of related debt, the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Agency's net position (.6%) or $2,762,643 represents resources that are subject to external restrictions as to how they may be used. The remaining balance of $19,186,577 is unrestricted and may be used to meet the Agency's ongoing obligations to its citizens and creditors.

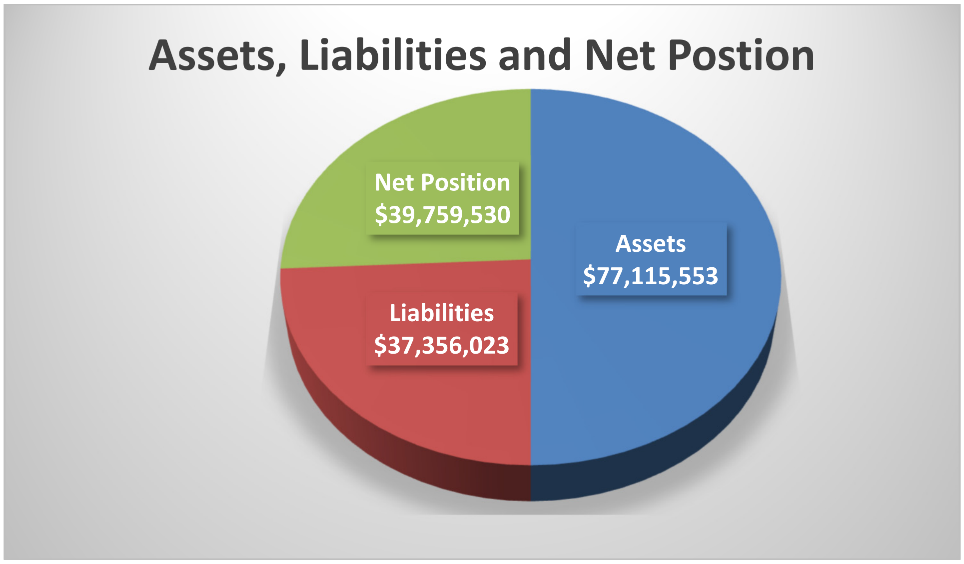
At the end of the current fiscal year, the Agency reported positive balances in all reported net position categories.

The following table reflects the condensed Statements of Net Position:

Summary of Statements of Net Position

	June 30, 2022
Current and other assets	$ 47,605,245
Capital assets	25,747,192
Total deferred outflows of resources	3,763,116
Total assets and deferred outflows	$ 77,115,553
Current liabilities	$ 17,407,275
Long-term liabilities	10,906,324
Deferred inflows of resources	9,042,424
Total liabilities and deferred inflows	$ 37,356,023
Net Position:	
Net investment in capital assets	$ 17,810,310
Restricted	2,762,643
Unrestricted	19,186,577
Total net position	$ 39,759,530
Total liabilities, deferred inflows of resources and net position	$ 77,115,553

As noted earlier, the increase in overall net position is the result of the net income generated in the current year.



Cash and cash equivalents make up 78% of the current assets on the Statement of Net Assets. The value of cash and cash equivalents increased 35% or $9,065,461 over the prior fiscal year's amount. This cash balance includes amounts the Agency holds for regional and restricted programs. Through-out the year, the Agency receives funding to be spent on a specific program or expenditure. Many of these amounts were unspent at the year-end and are reflected in the cash balances. The cash held for restricted purposes are reflected as deferred revenues in the liability section.

Management has an ongoing goal to have twelve weeks of cash reserve balances at any time. This goal is monitored weekly by calculating the weeks of reserve for restricted and unrestricted cash. The Agency maintained this reserve successfully throughout the current fiscal year. Accordingly, Management monitors weekly productivity of staff to ensure billing is maintained. Budget to actual results were monitored closely to measure performance and judge whether the Agency is trending ahead or behind the projected plan.

Accounts receivable for the Agency is comprised of two categories: third party receivables for services billed and contract receivables from Industrial Developmental Center (IDC) sales.

Third party receivables for billed services are due from individuals served, Medicare, Medicaid, insurance companies, and other governmental agencies. The amount owed to the Agency in connection with service receivables at the end of the current fiscal year is $7,230,634. The allowance for doubtful accounts on service fees is calculated at $1,082,529, for a net receivable balance of $6,148,105. The receivable for billed services was higher this year than in prior years as Medicaid delayed payment of billings for the current fiscal year until after year end.

The IDC contract sales receivable balance at the end of the fiscal year was $693,121 with an allowance for doubtful accounts calculated at $10,293. The allowance for doubtful accounts remains low for contract sales receivables because the Industrial Developmental Centers (IDCs) are very diligent in their collection process to ensure amounts are collected.

Agency inventories relate to IDC programs and technology inventory. Inventories related to the IDC programs involve contracts with government and corporate customers, which provide employment opportunities for the individuals the Agency serves. The IDC purchases raw materials in anticipation of these contracts. The Agency had materials on hand and labor and overhead in process at the end of FY 2022, reflected as inventory on the balance sheet. This inventory varies relative to customer orders the IDC has at any given time. Inventory for the IDC programs on June 30, 2022 was $1,203,170.

Technology inventory consists of items kept on hand to distribute to new or existing staff to complete their job tasks. Inventory items include computers, printers, cables, keyboards, and various other items. Technology inventory on June 30, 2022 was $18,683.

Other receivables are amounts due from federal, state, or private grants for expenditures made on a reimbursable basis. Of the receivable balance of $809,062 reflected on the balance sheet, $787,512 is due from federal and state funding sources. No allowance has been calculated for these amounts.

Prepaid expenses on the balance sheet results from payments made for goods or services that will be received in the future. The largest item in the $750,869 balance reflected on the Statement of Net Position is prepaid health insurance for staff. Health insurance of $616,155 was paid in June 2022 for July 2022 premiums.

The Agency separates current assets that are restricted from those that are not. Restricted cash and cash equivalents and deposits and funded reserves relate to some of the Agency's outstanding debt. Restricted cash of $12,725 was set aside for a Rural Development note. The loan agreement requires a reserve equal to one year's principal and interest payments be accumulated at the rate of $1,060 per month until $127,248 is accumulated.

Signature Public Funding Corporation (SPFC) requires a principal payment in February of each year and interest payments twice a year in February and August. An amount of $53,986 was set aside as of June 30, 2022, to meet the interest payment required in August.

The restricted assets held in trust of $190,823 have an off-setting liability account, liability for funds held in trust. These funds are those for which the Agency has a fiduciary responsibility to individuals for whom we serve as payee agent. The Agency serves about 101 individuals in this capacity.

Accounts payable was reflected at $1,439,892 on June 30, 2022. Accounts payable represent the Agency's obligation to pay off a debt to its vendors for purchases of goods or services on credit. This account varies depending on the timing of the payments to vendors but is considered a short-term debt.

Compensated absences at the end of FY 2022 were $2,061,073. Compensated absences are absences from work for which employees will be paid. Employees usually receive full compensation for this time off and it arises from time accrued for annual, sick, and other paid time off (PTO). Employees earn time based upon their hire date and the length of service the employee has with the Agency. For an employee who earns sick time, the accumulation of sick time is unlimited during continued employment. Upon separation from employment, employees may receive a one-time cash payout for up to 25% of the unused sick leave and a maximum dollar amount based upon the employee's years of service. Annual and PTO time for an employee who is still employed. can be carried over from one calendar year to the next, but the hours are capped based upon the employee's length of service. When an employee separates from service, the maximum payout from accrued time is set at 157.5 hours.

Accrued payroll on June 30, 2022, is reflected at $2,354,001. Accrued payroll refers to the amount of liability at a specific time for wages that have been earned but not paid. The amount is comprised of staff payroll earned during the period of June 5th thru June 18th in the amount of $1,206,881 paid on July 1st, staff payroll earned during the period of June 19th thru June 30th in the amount of $1,089,202 paid on July 15th and IDC hourly staff earned during the period of June 20th thru June 30th in the amount of $57,918.

Unearned revenues show a balance of $12,858,257 at the end of June 2022. Unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met—e.g., for restricted funds received in advance where expenditures are made later. Most unearned revenue is monies received from state and federal agencies for restricted purposes, which have not yet been spent. The Agency received several one-time restricted funding amounts. Some of the funding received was for multiple years, targeted to be spent in the next fiscal year or years. In the table below the breakdown of these grants is detailed.

Unearned revenues of $12,858,257 on the financial statements also reflects $31,811 of unearned revenue from Twin County drug court fees, Wythe County drug court fees, and prepaid receivables for fees for services.

The following table reflects the amounts and programs in restricted grant funds:

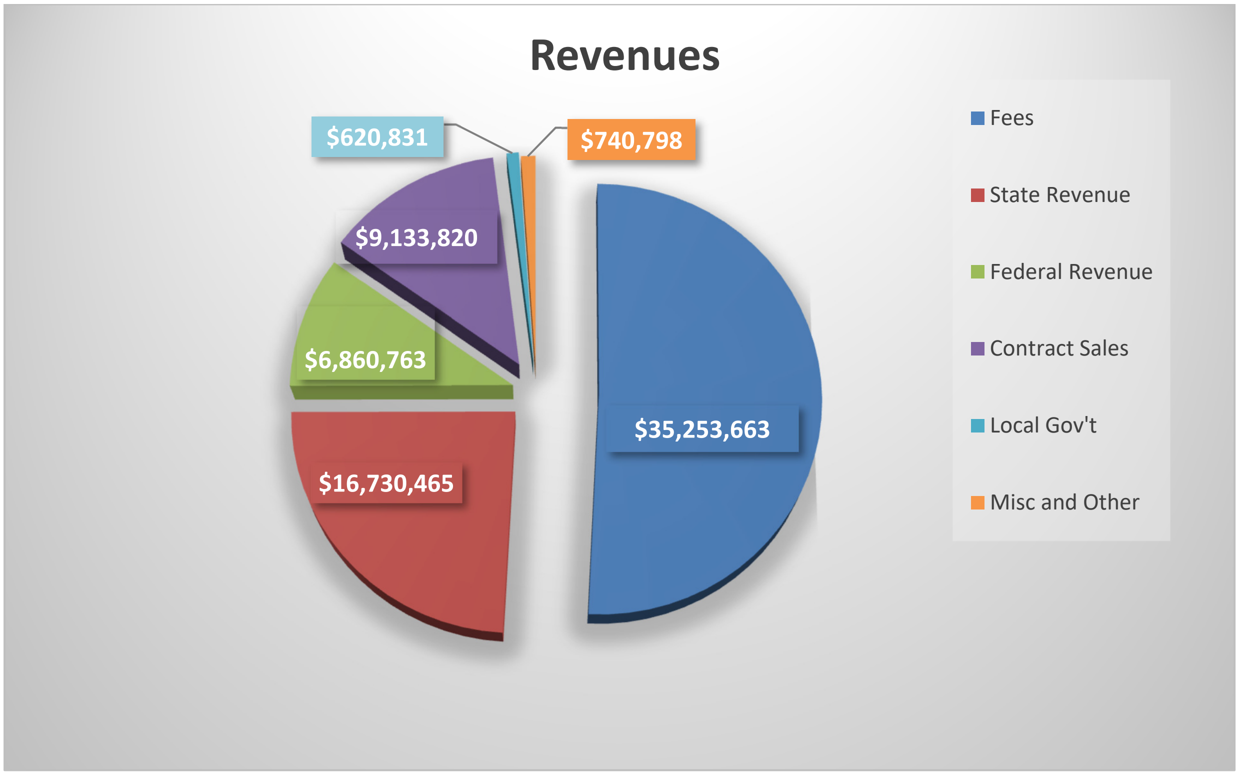
Program	2022
Family Initiative Funds	$ 164,482
Local Inpatient Purchase of Service (LIPOS)	138,356
Discharge Assistance Program (DAP)	2,346,518
Regional Alternative Transportation	4,796
Regional Geriatric Liaison	1,740,963
Medical Detox	53,607
Project Link	146,537
Regional Liaison	197,647
Regional Transportation	19,071
SA Prevention Funds	196,950
CRC Lite Funding	154,361
OBRA One-Time Funding	92,334
Jail Diversion	139,983
SAMSHA Emergency COVID-19 Grant	6,382
Internally Designated Fundraising	2,550
Developmental Services Facilitating Supports	26,697
SUD State/Local Recovery Workforce Initiatives	58,750
SABG Treatment & Recovery	17,314
Geriatric Transition House	1,608,388
ARPA Funding – Part C	56,862
ARPA Funding – DEI Project	91,500
SOR Recovery and Treatment Funds	259,566
Pharmacy Pilot Project	200,000
Peer House	1,999,887
PATH Expansion	733,807
Y-SAT Program Funds	58,096
STEP VA Peer, Family and Veteran Funds	136,468
CIT Grant	80,715
CIT Training Grant	18,170
Transition Programs (Additional DAP Funds)	902,875
Twin County Community Foundation Grant	15,734
CSC Funds	500,000
Permanent Supportive Housing	657,080
Total	$ 12,826,446

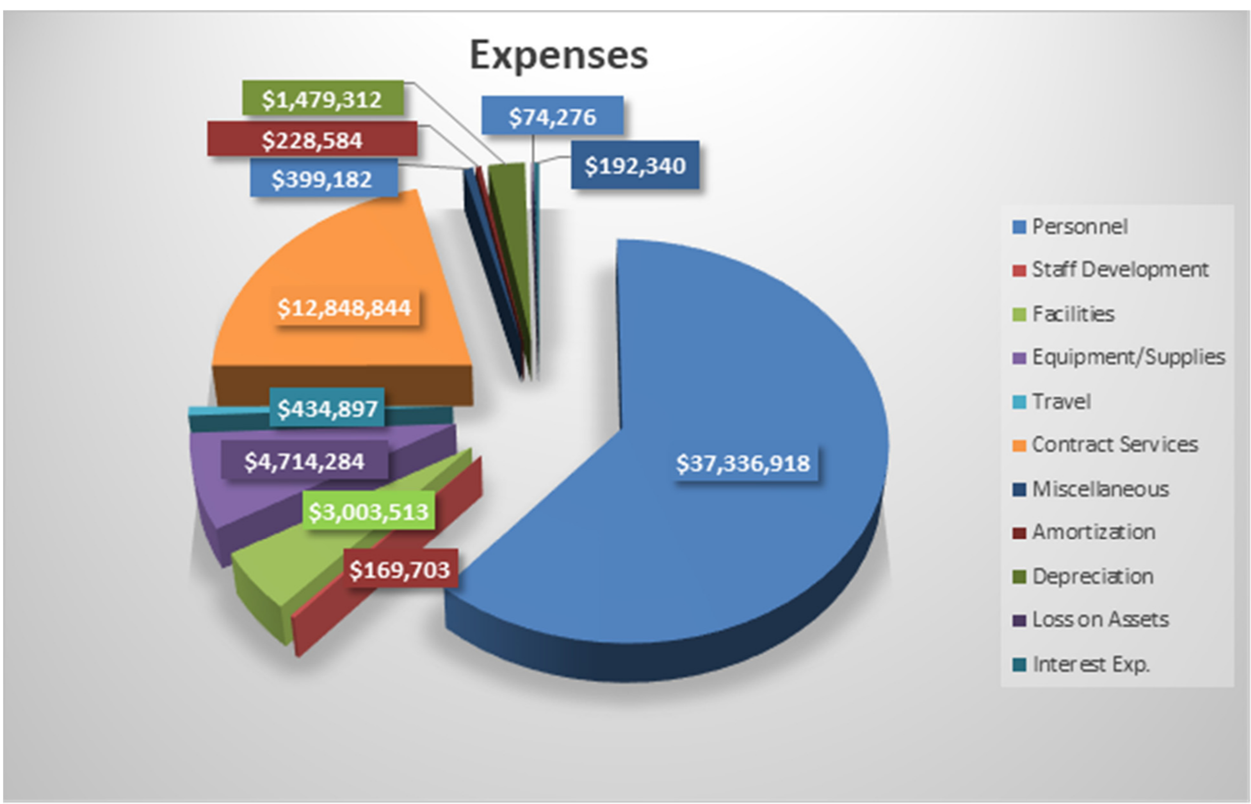
The Agency's net position at the end of FY 2022 shows a balance of $39,759,530 an increase of $8,458,487 over last year's balance of $31,301,043. This is a 27% increase from last year. This increase was related to the positive change in net position reflected on the Statement of Revenues, Expenses and Changes in Fund Net Position.

The following table reflects the condensed revenues and expenses of the Agency for FY 2022:

Summary of Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2022
Operating Revenues	
Third-party fees	$ 35,253,663
Contract sales	9,133,820
Contributions	13,217
Rent	176,946
Other income	361,899
Total operating revenues	44,939,545
Operating Expenses	
Personnel	37,336,918
Staff development	169,703
Facilities	3,003,513
Equipment/supplies	4,714,284
Travel	434,897
Contract Services	12,848,844
Miscellaneous	399,182
Amortization	228,584
Depreciation	1,479,312
Total operating expenses	60,615,237
Operating loss	(15,675,692)
Nonoperating Revenue (Expense)	
Interest income	188,736
Interest expense	(192,340)
Loss on sale/disposal of assets	(74,276)
Intergovernmental revenues:	
Commonwealth of Virginia	16,730,465
Federal Government	6,860,763
Local Governments	620,831
Total net nonoperating revenue	24,134,179
Change in net position	8,458,487
Net Position	
Beginning of year	31,301,043
End of year	$ 39,759,530


Revenues
$620,831
$740,798
$9,133,820
$6,860,763
$35,253,663
$16,730,465
Fees
State Revenue
Federal Revenue
Contract Sales
Local Gov't
Misc and Other


Expenses
$1,479,312
$228,584
$399,182
$74,276
$192,340
$12,848,844
$434,897
$4,714,284
$3,003,513
$169,703
$37,336,918
Personnel
Staff Development
Facilities
Equipment/Supplies
Travel
Contract Services
Miscellaneous
Amortization
Depreciation
Loss on Assets
Interest Exp.

The sources of fee revenues include fees for services to individuals, whether directly billed to individuals receiving services, or billed to Medicaid, Medicare, or other private and governmental insurance companies. Fees also include revenues for services provided to other local agencies on a contractual basis. During FY 2022, the Agency earned $35,253,663 from third-party fees. The largest funding source of these fees was Medicaid with $32,271,495. Effective July 1, 2021, Department of Medical Assistance Services (DMAS) implemented a temporary rate increase of 12.5% in accordance with the Acts of Assembly, 2021, Special Session II, Item E.1. Regarding the 12.5% rate increase, the following services were affected: waiver services, intellectual disability/developmental disability support coordination, community mental health rehabilitation services (mental health case management, mental health skill building, psychosocial rehabilitation, crisis, assertive community treatment) substance use intensive outpatient services and early, periodic, screening, diagnosis, and treatment (EPSDT) services. The rate increase was eligible for dates of service July 1, 2021 through June 30, 2022.

Contract Sales for FY 2022 were $9,133,820. The IDC's provide employment and growth opportunities for individuals with disabilities. Services are designed to develop or re-establish work skills, behavior, and habits (work adjustment training), enhance and support wage-earning capability (extended employment), transition from school to work (work readiness training) and facilitate employment opportunities for persons who require support to work in integrated competitive employment (supported employment).

The IDC also provides customized, value-added manufacturing services to business/industry as manufacturing products which are purchased by the US Government. The IDC is a supplier of men's cotton handkerchiefs, personal effects bags, sleep shirts, advanced combat helmet covers, and cleaning cloths for the US Government. Contract sewing and screen printing of shirts, tote bags and other products is done for commercial customers.

Rental income for FY 2022 was $176,946. This income is derived from two properties owned by Mount Rogers Community Services Inc (Inc), the West Ridge Medical building in Wytheville and the Twin County Campus building in Galax. Portions of each building are occupied by third parties who pay rent to Inc.

Other income for the FY 2022 was $361,899. Of this income, $128,643 is from other local sources including funds from local foundations. The remaining other income of $233,256 is derived from miscellaneous other income sources.

Regarding state revenue, the Agency continues to act as fiscal agent for the Southwest Virginia Behavioral Health Agency for Planning Partnership Region 3 (PPR 3), for the purchase of inpatient psychiatric bed days (Local Inpatient Purchase of Services—LIPOS), and for the Discharge Assistance Program (DAP). Also, for the HPR 3 region the Agency serves as the fiscal agent for a regional Community Crisis and Psychiatric Services grant. This grant helps to address the gap in psychiatric availability for youth by funding crisis intervention and stabilization services for youth. Such services include contracted tele-psychiatry services and center-based and ambulatory crisis stabilization programs. The Agency was given regional funding in FY 2022 to develop a transitional home setting for individuals who are severely mentally ill. The funding would develop a setting which would offer a wide array of residential services which would help decrease the state hospital census and provide support and sustainability needs for individuals to transition towards independent living. The Agency received regional funding to develop a community-based behavioral health support for senior citizens. A team was developed to act as a safety net, working alongside nursing homes and ALFs to stabilize patients, assist with transitions in care, and prevent hospitalization or step-down to decrease individuals' length of stay. The extension of geriatric services includes the development of a 10-bed geriatric transition center that will decrease the barriers associated with discharge wait times, reduce the number of individuals with dementia in the state hospital, as well as divert individuals with dementia needing stabilization and placement in the community from entering state psychiatric facilities.

The Department of Behavioral Health and Developmental Services provides state and federal funds to the Agency to provide public behavioral health for mental health and substance use disorders and developmental (intellectual disability) services in Virginia.

State revenue earned and reflected on the financial statement total $16,730,465. Accrual basis accounting and financial reporting recognize revenue when it is earned and expenses incurred, regardless of when money changes hands. Funds received but not earned at the fiscal year end are reflected as deferred revenue on the balance sheet.

State funding awarded to the Agency for the first time in the current year include:

- Coordinated specialty care (CSC) – An amount of $500,000 was awarded to the Agency for a recovery-oriented treatment program for people with first episode psychosis. CSC promotes shared decision making and uses a team of specialists who work with individuals to create a personal treatment plan. Specialists offer psychotherapy, medication management, family education and support, case management and work or education support, depending on the individual's needs and preferences.

- Pharmacy Pilot - Virginia in seeing an increasing number of individuals seeking services for a crisis who needed access to medications 24/7. Access to timely medication has been identified as a significant barrier across the state. The Virginia Board of Pharmacy granted a three-year innovative pilot project to help individuals receive needed medication by utilizing automated dispensing devices. The pilot project allowed the Agency to contract with Partners Pharmacy to provide the APS Passport machine and pharmacy services for this site to meet the anticipated needs of individuals.

- Geriatric Transition Center – The Agency was awarded $1,631,797 start-up funds to establish a 10-bed geriatric transition center in Wytheville, Virginia. This program will be an extension of our current geriatric services, serving as a community-based step-down facility for individuals discharged and diverting from the state psychiatric facilities with a diagnosis of dementia. Given the rural nature of our catchment area, availability of resources, and time it takes to place an individual into long-term care, this 24/7 residential program allows individuals to stay up to 6-months while waiting placement into a nursing home, assisted living facility (ALF), or family home. During this time, individuals will be under the care of the Geriatric Team, who will provide a full range of wrap around services and supports to individuals with dementia and their caregivers/families.

The funding amounts received this year were not all earned in the current year. Funding received may be earned over a two- or longer-year period. Any amounts not earned in the current year are shown as unearned revenue on the balance sheet.

Federal revenue earned in the current fiscal year was $6,860,763. Accrual basis accounting and financial reporting recognize revenue when it is earned and expenses incurred, regardless of when money changes hands. Funds received but not earned at the fiscal year end are reflected as deferred revenue on the balance sheet.

Federal funds awarded to the Agency in the current year include:

- Peer House Program – The Agency was awarded $3.200,000 to open a 7-bed mental health peer house in Smyth County, Virginia. The Peer Support House will serve as a voluntary alternative for individuals experiencing or at-risk for a mental health crisis that need additional support but have not reached a need for traditional psychiatric hospitalization. The peer-ran residential program will be open 24/7 with Peer Support Specialist available to address guests' immediate needs. Given the rural nature of our catchment area and chronic housing crisis, the Peer Support House will be available for individuals to stay up to 14 days. During this time, Peers will engage in peer-centered, recovery-oriented support, assist with the development of Wellness and Recovery Action Plans, and link guests to community resources to continue working towards recovery.

- FY 2022 was the first fiscal year for which the Agency received Community Mental Health Center (CMHC) funds. The Agency was awarded the CMHC grant in September of 2021 by Substance Abuse and Mental Health Services Administration (SAMHSA). The CMHC award allowed the Agency, as a community mental health center, to support and restore the delivery of clinical services that were impacted by the COVID-19 pandemic and effectively address the needs of individuals with serious emotional disturbance (SED), serious mental illness (SMI), and individuals with SMI or SED and substance use disorders, referred to as co-occurring disorder (COD). The CMHC award is $2,500,000 per year for a two-year period.

- The Agency received revenue of $100,996 from Round 4 of the Health Resources & Services Administration (HRSA) Provider Relief Funds. These awards were given to eligible providers that had health care related expenses and lost revenues attributable to COVID-19.

- The Agency received revenue of $754,792 from HRSA American Rescue Plan (ARP) Rural Payments. These awards were intended to address the disproportionate impact of COVID-19 on rural communities and rural health care providers. HRSA made payments to providers based on the amount and type of services they provided to Medicare, Medicaid, and Children's Health Insurance Program (CHIP) patients who live in rural areas, as defined by the Federal Office of Rural Health Policy.

Local funds for FY 2022 were $620,831. The Code of Virginia authorizes DBHDS to provide funds to help establish, maintain, and promote mental health, intellectual disabilities, and substance use services. The code also establishes criteria for allocation of funds to community services agencies and limits these allocations to no more than 90% of the total amount of state and local matching funds provided for operating expenses unless a waiver is granted by the Department. The minimum local matching funds requirement is 10%. This 10% match is requested from the counties of Smyth, Wythe, Bland, Carroll, and Grayson and from the City of Galax.

Personnel expenses increased in FY 2022 to $37,336,918. Several factors contributed to the increased personnel expenses. To promote staff retention and recognize exceptional staff efforts during the Covid-19 pandemic, two retention bonuses were paid to staff in the fall of FY 2022. In addition, staff received a 2% increase in January 2022. Personnel expenses also increased due to new programs launched in FY 2022 or full year costs of programs partially launched in FY 2021. These programs include the Nursing Home Pilot Discharge Program, the Transitions transitional home, the Geriatric Transition Center, and new positions under the CMHC grant.

Staff development expenses for FY 2022 were $169,703. Staff development involves training expenses associated with the Agency's employee dues and memberships and subscriptions of the Agency. One of the largest expenditures made by the Agency for staff development continues to be for certifying staff in Behavioral Health Safety Care.

Facilities expenses for FY 2022 were $3,003,513. Facility expenses comprise rent; utilities; telephone; facility maintenance; facility insurance; and renovations. Facilities expenses in FY 2022 increased as additional buildings were acquired during the year.

Equipment and supplies expense for FY 2022 was $4,714,284. Items in this category are small equipment, maintenance and service contracts, office supplies, facility supplies, educational and recreation supplies, food expense, medical supplies, and contract supplies.

During FY 2022, equipment and supplies expenses decreased from the prior year primarily due to a decrease in contract supplies expense, which is the cost of items used in the manufacturing process at the IDCs. Contract supplies expense is directly proportional to contract sales revenue.

Travel expenses for FY 2022 were $434,897. Travel expenses include items such as private mileage paid to employees, operating expenses for the Agency's fleet, automobile insurance and employee food and lodging. As the travel limiting effects of the COVID-19 pandemic faded, travel expenses increased during FY 2022, as staff returned to more normal travel patterns and protocols.

Contract services in FY 2022 were $12,848,844. Contract services are comprised of accounting and auditing expenses, data processing costs, legal services, psychiatric and psychological contract expenses, and program contractual services.

Miscellaneous expense for the FY 2022 was $399,182 Miscellaneous expense is comprised of staff liability insurance, postage, printing, advertising, client and family support and any other expense that cannot be classified in one of the other expense categories.

Depreciation expense for FY 2022 was $1,479,312. Depreciation is calculated on capital assets. A capital asset is an asset held with the intention of being used for the purpose of producing or providing goods or services in the normal course of business. Depreciation is an accounting method of allocating the cost of a fixed asset over its estimated useful life. The Agency capitalizes and depreciates all capital assets with a value of $5,000 or greater. The Agency uses estimated useful lives for capital assets ranging from three to forty years.

Interest expense increased slightly in FY 2022 to $192,340. The increase was due to interest on the loans from Rural Development for the West Ridge Medical building and from First Bank and Trust for the Twin County Campus building.

The Statement of Cash Flows provides relevant information regarding the Agency's sources of cash receipts and uses of cash disbursements. This statement demonstrates the Agency's capacity to generate cash flows and its ability to pay routine obligations.

Overall, unrestricted cash increased this year by $9,078,186. The Agency generated $12,859,046 in net cash from its operating and noncapital financing activities aggregated for FY 2022. Receipts from individuals served and IDC customers generated $43,900,324, while receipts from state, federal and local governments were $30,800,094. Cash outflows to employees and for employee benefits totaled $39,089,039, and payments for goods and services totaled $22,752,333.

The net cash used by capital and related financing activities used $3,969,596. During the current fiscal year, loan reductions included debt payments on long-term debt to Rural Development, First Bank and Trust and the Signature Public Funding Corporation, all totaling $1,099,590. New debt taken during the year included First Bank and Trust note for $2,100,000 and proceeds from Rural Development of $175,037. Capital activities also included purchases of capital assets of $5,014,249. Other items included in capital and financing activities include proceeds from the sale of assets of $117,015, security deposits paid of $11,016, and payments from reserve accounts more than contributions to reserve accounts of $53,349. Interest expense paid in FY 2022 was $183,444.

Net cash provided by investing activities was $188,736, representing interest income.

Capital Assets

The Agency's capital assets net of accumulated depreciation totaled $25,243,629 on June 30, 2022. This amount represented a net increase of $3,369,061 from the previous fiscal year end. Depreciation expense totaled $1,479,312 for the current fiscal year. During this fiscal year, the Agency purchased $5,014,249 in capital assets. These capital expenditures included the purchase of real estate of $2,904,805, remodeling of facilities for $1,956,287, the purchase of vehicles for $116,341 and purchase of equipment and furniture for $36,816.

During the current year, Mount Rogers Community Services Inc. purchased four properties to be rented to the Agency to conduct services. They include:

> Property purchased at 115 North Church Street in Marion, Virginia. This 4,000 square foot structure is being used to operate a six (6) bed transitional home for individuals discharged from a Virginia state psychiatric facility,
>
> Property purchased at 816 Glendale Road in Galax, Virginia. This 24,776 square foot building will be the future home of services offered in the Grayson and Carroll County and the City of Galax area. The building is currently being renovated.
>
> Property purchased at 404 East Main Street, Marion, Virginia. This building, which is about 2,888 square feet, is being used as office space for the Agency's geriatric staff.
>
> Property purchased at 675 W Main Street, Wytheville, Virginia. This 4,636 square foot building was purchased to operate a 7-bed mental health peer house, a voluntary alternative for individuals experiencing or at risk for a mental health crisis. This building is currently being renovated.

The following table reflects the comparison of Capital Asset components as of June 30, 2022:

Description	FY 2022
Land	$ 1,645,675
Building and Land Improvements	29,914,696
Equipment and Vehicles	6,733,210
Construction in Progress	1,900,254
Total	$ 40,193,835
Accumulated Depreciation	(14,950,206)
Net Property and Equipment	$ 25,243,629

Right of use leased assets required to be reflected in the capital asset category totals $503,563.

Long-term debt

During the current fiscal year, the Agency continued to retire current debt by making payments based on the loan agreement. The Agency also incurred additional debt for the purchase of real estate. Outstanding long-term debt at the end of June 30, 2022, was $7,421,645, which increased by $1,000,410 over the prior year.

In the current year, the Agency entered into a loan agreement with First Bank and Trust for the financing of real estate located in the City of Galax, Virginia. The loan, dated April 2022 for $2,100,000, is to be repaid over a 10-year period. Principal and interest payments of $19,323 at a rate of 2% are due and payable monthly.

Principal payments of $882,718 were paid on mortgage loans with Rural Development, $185,200 was paid on the secured note with Signature Public Funding Corporation, and $31,672 was paid on the First Bank and Trust Note Payable. The current portion of long-term debt on June 30, 2022, was $453,004.

Budgetary Highlights

The following table reflects the budget to actual comparison for FY 2022:
(Component units are omitted from this table.)

	Initial Budget	Revised Budget	Actual
Revenues:			
Fees	$ 34,808,555	$ 34,815,556	$ 32,884,560
State Funding	15,395,913	14,671,570	21,142,918
Federal Funding	4,008,592	4,008,592	9,231,443
Contract Sales	8,821,163	8,821,163	9,117,115
Local Governments	614,531	614,531	620,831
Contributions/Other local	174,403	174,403	155,713
Miscellaneous	121,714	122,304	285,898
Prior-year Re-grant	1,043,134	6,214,130	6,005,059
Total Revenues	$ 64,988,005	$ 69,442,249	$ 79,443,537
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			(10,103,197)
Total GAAP Revenue per the Statement of Revenues, Expenses and Changes in Net Position			$ 69,340,340
Expenses:			
Personnel	$44,532,320	$44,532,320	$41,672,476
Staff Development	198,941	198,941	180,290
Facilities	3,550,599	3,550,599	5,538,790
Equipment/Supplies	5,230,725	5,275,424	4,929,150
Travel	565,615	565,615	435,448
Contract Services	9,527,354	13,872,837	10,117,636
Miscellaneous	527,525	485,434	420,748
Total Expenses	$64,133,079	$ 68,481,170	$63,294,538
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			(2,412,685)
Total GAAP Expenses per the Statement of Revenues, Expenses and Changes in Net Position			$60,881,853

The Agency does not budget for non-operating expenses, such as depreciation expense, nor does the Agency budget for interest income and interest expense. The budget is prepared on the modified cash basis of accounting.

Economic Outlook

The financial statements of the Agency for FY 2022 reflect a strong financial performance. The Agency's change in net position reflects an increase of $8.4 million. This is the eighth consecutive year the Agency has reflected a positive change in net position. Based upon this performance, the Agency made strategic plans to use portions of the funds to retire debt, upgrade and/or remodel facilities and set aside funds for purchase of real estate.

The Agency purchased 1.8 acres of land on 4th Street in Wytheville, Virginia. This property was purchased to be the building site for an Intermediate Care Facility (ICF). An intermediate care facility provides 24-hour personal care, habilitation, developmental and supportive health services to developmentally disabled individuals whose primary need is for developmental services and who have a recurring intermittent need for skilled nursing services. Due to the aging population of the individuals at one of the Agency's waiver group homes, it is no longer feasible to operate the facility as a group home and a decision was made to convert the home to an ICF to provide the intensive care the individuals require. The Agency currently rents the property of the existing group home and instead of making renovations to the current rented home, the Agency made the decision to look for other property. Suitable existing property could not be located, but the Agency found some land and decided to construct a new building for this program. The plan would be to construct an eight-bed ICF home to convert the current four bed group home. This will provide four more beds needed to help with the aging population of other group homes. The Agency is touring other Community Services Board's ICF homes to begin making plans to plan the construction of the home that we hope will be built in the fiscal year 2024.

The Agency is currently in the process of converting the property called the "Carroll House" to an ICF facility. The process of converting the waiver group home into an ICF is a lengthy process. The Agency has spent the last year writing policies and procedures and making modifications to the physical property to be able for the conversion. The Carroll House is currently an eight-bed group home for individuals who need the skilled nursing services provided by the conversion to an ICF. If things go as planned, the conversion will happen in FY 2023.

One of the goals of the Agency is to eliminate the need to rent property. The Agency is in the position to purchase property to house our programs and the idea is pay ourselves, not a landlord. This idea builds equity in our property and not the property owned by others. This is an investment in Mount Rogers Community Services. The Agency has purchased a property at 7142 West Lee Highway in Rural Retreat. The property is a 2,896 square foot home that will be used to operate a waiver group home. Currently this group home is operated in a rented property. This property was purchased with cash reserves.

Another goal the Agency is working toward is to retire debt. By retiring debt, it will keep the Agency's financial risk low and will save money over time (not paying interest expense). The Agency will use surplus cash to retire a loan with Signature Public Funding Corporation. This loan was originally procured in February 2008 with a bond issuance with the County of Stafford and City of Staunton. The bond issuance was for $4,000,000 and was used to build the facility known as Fernwood. The bonds were converted to Signature Public Funding Corporation in December 2019. The loan is secured by real estate with an interest rate of 4%. The loan balance at the end of the year was $2,601,300 and will be retired before the end of FY 2023.

COVID-19 continued in FY 2022 and continues to be monitored in FY 2023. The virus continues to infect staff and individuals that we service. The Agency has been short staffed in many programs especially our crisis residential units and ID residential group homes. The Agency has offered incentives to encourage staff to work additional hours above their required work week to help provide coverage to these critical programs. While these incentives are paid at a premium rate, many of the hours are paid at an overtime rate. The Agency also has a contract with a vendor who provides contract staff (e.g., traveling staff) to help cover the gap in staffing. These staff hours are paid at premium prices well above the rates paid to the Agency's regular hourly staff.

Procedures state all staff will continue to wear masks and other protective equipment as deemed necessary. The Agency also monitors virus outbreaks and requires staff who are exhibiting signs of sickness to take a COVID test before coming back to work.

The Agency continues to use technology for staff meetings through a software called Zoom. This form of meeting is beneficial for staff as it eliminates the driving time for in-person meetings and makes meetings possible for those who are unable to travel. It is also beneficial to the Agency as it reduces the vehicle expenses associated with travel. The Agency plans to continue to use Zoom technology as this has been a positive for normal operations.

In September 2021, The Agency was awarded a $5 million Community Mental Health Center (CMHC) grant by SAMSHA. This two-year grant is to support, restore and enhance mental health services for individuals impacted by the COVID-19 pandemic. The grant is designed to meet the evolving and expanding needs of the seriously mental ill, who were isolated by the pandemic, by increasing access to Crisis Management Services. This grant was used to support three Crisis Care Centers in Wythe, Smyth, and Twin County areas. These centers make services available 24 hours a day, 7 days a week. These services are intended to keep individuals out of the emergency room. The CMHC grant helps to support a licensed prescriber (doctor or nurse practitioner), registered nurses, qualified mental health professionals, licensed mental health professionals, peer specialists, family support partners and community outreach trainers. This grant will continue through FY 2023.

The Agency sets strategic goals every year. The initiatives for the FY 2023 were fiscally focused, sound and centered on quality care with measured outcomes. As the FY 2023 budget was developed, it was based on estimated staff billable targets. These targets are monitored to determine the efficiency and productivity of programs and staff. Revenues and expenses were projected based upon realistic goals and expectations of the Agency. Each program area is expected to cover all expenses and generate surplus to go toward increasing cash surplus (known as reserve). The Agency will continue to research new funding sources, identify cost efficiencies, enhance reimbursement and billing procedures, and maximize the utilization of services. Changes implemented should result in steady improvement in operating margins.

The Agency was fortunate in FY 2022 and received several one-time state allocations of funds for projects. Many of these funds were for periods greater than one year or were not fully spent in the FY 2022 year. These unspent funds will be carried over into the FY 2023 year to support expenditures. These unspent funds show as deferred revenues in the Statement of Net Position and total $12,858,257. Major amounts of deferred revenue are summarized below:

- The Agency has partnered with DBHDS and Valley Health Care Center Nursing Home to develop and operate a Nursing Home Pilot Discharge Program. DBHDS provided funds to provide regional state hospital nursing home discharge specialists and a nursing home enhanced activities therapist. This program received one-time funds to operate this pilot program for a three-year period. At the end of June 2022, the program had unspent funds of $1,740,963 that will carry forward into FY 2023 to support operations.

- The Agency also received funds from DBHDS to open a Dementia Transition Center. These funds consisting of $1,295,941 in program operating funds and $335,856 in one-time startup funds was to provide ten beds to provide short term residential care, behavioral support, and transitional planning for individuals with dementia, specifically those that would otherwise be served by state hospitals. On June 30th, the Agency had $1,608,338 of funds to carry over into FY 2023.

- Mount Rogers Community Services received $724,343 of state funds in FY 2021 and FY 2022 to help develop a transitional home setting for individuals with serious mental illnesses. The goal is to offer a wide array of quality residential services along with decreasing the state hospital census. Individuals transition toward independent living and may reside at the facility for up to 12 months. The Agency will work collaboratively with Southwestern Virginia Mental Health Institute to increase access to care and eliminate barriers individuals face once discharged from the hospital. The Agency established a 6-bed transitional home, called Transitions, for individuals discharged from a Virginia state psychiatric facility. In FY 2021, the program services were delayed due to hiring staff and obtaining a physical location to provide services. Total funds deferred at the end of June were $902,875. This program is fully operational, and these funds should be expended in FY 2023.

- Children's Residential Crisis Stabilization is a crucial part of the community-based care in Virginia. DBHDS is committed to providing residential care for individuals as part of managing their behavioral health crisis. The Agency currently has an 8-bed crisis stabilization unit which provides an alternative to hospitalization for children. This program, called PATH, offers a safe and therapeutic environment for them to deescalate from a crisis, to stabilize for a period, and to develop the skills and awareness essential to on-going recovery. In June 2021, DBHDS awarded the Agency one-time funding of $1,675,000 to purchase real estate and create a 12-bed crisis stabilization. During FY 2021 the real estate was purchased, and construction began in FY 2022. The amount of deferred revenue at the end of June was $733,807. The project will be completed in FY 2023 and all funds will be expended.

- Peer House Program – The Agency was awarded $3,200,000 to open a 7-bed mental health peer house in Smyth County, Virginia. This project was funded by a $2,000,000 one-time ARPA Mental Health Block Grant and a $1,200,00 one-time CAA Mental Health Block Grant Funds. This funding provides funds for program services costs and some funds for renovations to the physical property. The Peer Support House will serve as a voluntary alternative for individuals experiencing or at-risk for a mental health crisis that need additional support but have not reached a need for traditional psychiatric hospitalization. The peer-ran residential program will be open 24/7 with Peer Support Specialist available to address guests' immediate needs. Given the rural nature of our catchment area and chronic housing crisis, the Peer Support House will be available for individuals to stay up to 14 days. During this time, Peers will engage in peer-centered, recovery-oriented support, assist with the development of Wellness and Recovery Action Plans, and link guests to community resources to continue working towards recovery. The $2,000,000 was received in FY 2022 and an amount of $1,999,887 was carried over in FY 2023. The other $1,200,000 was received in the FY 2023 year.

- The Agency is the fiscal agent for the Southwestern Virginia Board. As fiscal agent, the Agency receives funds from DBHDS and pays vendors based upon direction from SWVAB. One program administered by the Agency for SWVAB is the Discharge Assistance Program. DAP supports a person-centered and recovery-based care and provides services and supports that promotes self-determination, empowerment, recovery, resilience, health, and the highest level of participation by individuals receiving services in all aspects of community life, including work, school, family, and other meaningful relationships. The DAP program offers a flexible approach for responding to discharge barriers from state hospitals and support needed to keep them out of the hospital. During FY 2022, the DAP program received $3,882,330 of current year funding and carried over $1,327,479 of funds from FY 2021. During the year, the Agency expended $2,863,294 leaving $2,346,518 to carry over to FY 2023 year.

The Industrial and Developmental Centers (IDC) continues to produce for both commercial customers and the US Department of Defense (DOD). The DOD remains the IDC's largest customer. Ongoing discussions with additional commercial customers are continuing with the expectation of at least one new commercial customer, a manufacturer of airline support equipment, in FY 2023. The IDC has also secured an increase in volume for FY 2023 with an existing commercial customer. The IDCs commercial customer base continues to be strong with long term customers including Blue Ridge Beverages, Somic America, Carolina Narrow, Pascor and ABB.

The overall mix of DOD products has shifted for FY 2023. The IDC recently completed the contract for the Advance Helmet Cover (ACH) in the Snow Camo design. A new fixed quantity contract for the ACH in the Operational Camouflage Pattern (OCP) was recently secured and the IDC, SourceAmerica and the National Institutes for the Blind (NIB) are in active negotiations to secure a new five-year contract for the continuation of production of the ACH in OCP at the conclusion of the fixed quantity contract. Both the current fixed quantity contract and the new five-year contract are expected to be at about half of the previous demand. Fortunately, the demand for the Advanced Combat Shirt (ACS) has increased and DOD forecasts that strong demand continuing through FY 2023. The IDC has been able to shift resources from production of helmet covers to combat shirts to help meet this increased demand and maintain employment for the individuals served.

The IDC's contract sales for FY 2023 are forecasted to increase. This is due to the strong ACS demand and the expectation of subcontracting a portion of that demand, above the IDC's capacity, to another SourceAmerica affiliated producer.

Both inflation and the increase in the Virginia minimum wage on January 1, 2023, will impact the IDC revenue. The IDCs commercial sales prices are expected to increase to cover the minimum wage and material cost increases. It is not expected that the DOD contract sales pricing will change as those contracts are typically written and signed as firm fixed price contracts. The IDC along with SourceAmerica and NIB are actively working to renegotiate the ACS contract price. While it looks promising that pricing may change to cover the increased cost of materials, labor and freight, those negotiations are ongoing.

The Commonwealth of Virginia is committed to providing supportive housing opportunities for adults with serious mental illness to promote wellness, prevent and end experiences of homelessness, unnecessary hospital admissions and facilitate discharges from institutional facilities. DBHDS funding helps participants to secure and maintain affordable housing through a Permanent Supportive Housing Program (PSH). This program combines affordable housing assistance with voluntary support services to address the needs of chronically homeless people. The Agency has been providing supportive services such as housing stabilization, case management, and peer support services. Homelessness continues to increase across the State and housing opportunities for individuals are becoming harder to find. With many rental owners getting out of the rental business, fewer housing units are available. In the latter part of FY 2022, the Agency begun to explore developing a pool of housing units. The plan is to purchase real estate that can then be used to rent to individuals in the PSH program. By owning this real estate, the Agency could help expand the availability of PSH units and could benefit by being the recipient of rental income on the units.

Beginning July 2022, DBHDS instituted a new process to pay federal pass-thru revenues to Community Services Boards CSB). Before July 2022, the Community Services Boards received pass-through federal funds from DBHDS semi-monthly. The federal dollars awarded to the Agency would be paid twice a month at the rate of $1/24^{th}$ of the total. After July 2022, federal funds would be paid on a reimbursement basis except for a 1/8th upfront payment for the base grant allocation. Grant funds will then be paid after the submission of a reimbursement voucher filed by the CSB. DBHDS will be making site visits to CSBs at least once every 4 years to examine supporting documentation.

The Agency monitors cash reserves to ensure the Agency can meet current liabilities. The reserve required is available cash to support the expenditures for twelve weeks. Because the Agency has cash for restricted and regional programs, the measurement is made for total "unrestricted" cash and "restricted and regional" cash. The Agency has maintained an "unrestricted" cash reserve above twelve weeks for the entire FY 2022 year. The Agency is dedicated to ensuring cash reserves are adequate and decisions may be made to adjust budget as the situation develops.

During FY 2022, the Agency applied for a 5,000,000 grant to expand and optimize the Smyth County Mental Health campus. This expansion would double the number of beds in the Rhea B Lawrence Recovery Center from eight to sixteen, add a Crisis Care Center on the campus, provide space to offer a full array of outpatient services for referrals and provide individuals in care with healthy physical outlets. The Agency acquired 6.273 acres from the State of Virginia in October 2020 on which the new center will be built. The existing Crisis Care Center (CCC), which is currently located in a leased facility off site of the Smyth Campus will be relocated. Relocating the CCC would be more efficient for the clients as they can receive treatment at the same location as other facilities. The total estimated cost of the project is estimated at $9,100,000. The Agency portion will be funded through additional program income of $1,951,500 leaving the balance of $2,148,500 to be raised by the Agency through a capital fundraising campaign or debt.

During FY 2022, the Agency struggled with recruiting and hiring challenges and it is expected to continue in FY 2023. According to the Behavioral Health & Economic Network, it is estimated that 85% of federally designated mental health professional shortages are in rural locations. Hiring staff who have a bachelor's or master's level human services degree has become hard, as the qualified pool is limited in our geographical region. As a recruitment strategy, the Agency offers sign-on bonuses for staff to entice them to accept employment. Even with the promotion of the sign on bonus, it is still hard to fill these positions. The Agency has also implemented an employee referral program to help with recruitment.

To meet the agency's workforce needs in an increasingly challenging job market, Mount Rogers Community Services will increase marketing efforts related to workforce recruitment. Workforce recruitment marketing outlets include local and regional print media, local and regional radio stations, regional television stations, social media, online job boards, streaming video, online banner ad placements, and targeted emails.

To help in retention, the Agency is adjusting salaries of employees whom a recent VACSB Wage Study showed were paid under the average for the Region. All positions within the Agency will be looked at to see if an adjustment is needed.

The Agency has created two project teams tasked to reduce the time to fill positions and to improve the quality of orientation training received by new staff.

During Fiscal Year 2023, Mount Rogers Community Services will engage local and state legislators on legislation and budget items impacting our operation. In January 2023, the Chief Executive Officer (CEO) will travel to Richmond to meet with our representatives while the Virginia Senate and House of Delegates are in session. The CEO will explain to legislatures that a 5% increase for state employees does not mean a 5% Increase for Community Service Board employees. When the Commonwealth announces, for example, a 5% increase for State employees, this only impacts CSB general fund dollars (i.e., most State funds are earmarked or designated). In fact, the reality is general fund dollars continue to become less and less of our funding stream. This allows the State of Virginia more ability to recruit employees away from our Agency. Regarding private employers, private entities are recruiting the Agency's employees at 15 to 30% higher salaries than we can offer given our current Medicare and Medicaid reimbursements structure.

Another topic of discussion deals with licensure reform recommendations. With our Agency's location near bordering states, Virginia licensing criteria interstate compact (i.e., reciprocity agreements) should be put in place with bordering states including, but not limited to: North Carolina, Tennessee, West Virginia, Kentucky, and Maryland. Due to the lack of such agreements, additional time to become credentialled in Virginia is a deterrent for potential employment candidates. Other suggestions that the Agency is an advocate for include adding the Qualified Mental Health Practitioners (QMHPs) requirements to the degrees of Sociology and Criminal Justice and allow experienced QMHPs the ability to supervise QMHP licensed-eligible to lessen other licensed professionals having to fulfil this role.

Request for Information

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 money it receives. Questions concerning this report or requests for additional financial information should be sent in writing to the Chief Financial Officer, Mount Rogers Community Services, 770 West Ridge Road, Wytheville, VA 24382.

BASIC FINANCIAL STATEMENTS

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF NET POSITION
June 30, 2022

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 35,044,055
Accounts receivable (net of allowance for doubtful accounts)	6,830,933
Prepaid expenses	750,869
Other receivables	809,062
Other assets	12,732
Inventories	1,221,853
Total current assets	44,669,504
RESTRICTED CURRENT ASSETS	
Cash and cash equivalents – restricted	12,725
Loan proceeds held by lender	161,721
Restricted deposits and funded reserves	53,986
Restricted assets – held in trust	190,823
Total restricted current assets	419,255
Total current assets and restricted current assets	45,088,759
NONCURRENT ASSETS	
Net pension asset	2,505,109
Security deposits	11,377
Capital assets (net of accumulated depreciation)	25,747,192
Total noncurrent assets	28,263,678
Total assets	73,352,437
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	3,285,157
Deferred outflows related to other postemployment benefits	477,959
Total deferred outflows of resources	3,763,116
Total assets and deferred outflows of resources	$ 77,115,553

(Continued)

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF NET POSITION
June 30, 2022

LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 1,439,892
Accrued interest payable	49,409
Accrued liabilities	26,762
Unearned revenues	12,858,257
Accrued payroll	2,354,001
General note obligations, current obligations	678,954
Total current liabilities	17,407,275
LONG-TERM LIABILITIES	
Compensated absences	2,061,073
Security deposits	7,641
Net other postemployment benefit liability	1,388,859
General note obligations, net of current obligations	7,257,928
Total long-term liabilities	10,715,501
OTHER LIABILITIES	
Liability for funds held in trust	190,823
Total liabilities	28,313,599
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to lease rents	12,844
Deferred inflows related to pensions	8,422,003
Deferred inflows related to other postemployment benefits	607,577
Total deferred inflows of resources	9,042,424
NET POSITION	
Net investment in capital assets	17,810,310
Restricted	2,762,643
Unrestricted	19,186,577
Total net position	39,759,530
Total liabilities, deferred inflows of resources and net position	$ 77,115,553

The Notes to Financial Statements are an integral part of this statement.

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2022

OPERATING REVENUES	
Third-party fees	$ 35,253,663
Contract sales	9,133,820
Contributions	13,217
Rent	176,946
Other income	361,899
Total operating revenues	44,939,545
OPERATING EXPENSES	
Personnel	37,336,918
Staff development	169,703
Facilities	3,003,513
Equipment/supplies	4,714,284
Travel	434,897
Contract services	12,848,844
Miscellaneous	399,182
Amortization	228,584
Depreciation	1,479,312
Total operating expenses	60,615,237
Operating loss	(15,675,692)
NONOPERATING REVENUE (EXPENSE)	
Interest income	188,736
Interest expense	(192,340)
Loss on sale/disposal of assets	(74,276)
Intergovernmental revenues:	
Commonwealth of Virginia	16,730,465
Federal Government	6,860,763
Local Governments	620,831
Total net nonoperating revenue	24,134,179
Change in net position	8,458,487
NET POSITION	
Beginning of year	31,301,043
End of year	$ 39,759,530

The Notes to Financial Statements are an integral part of this statement.

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

OPERATING ACTIVITIES	
Receipts from individuals served and users	$ 43,900,324
Cash paid to suppliers for goods and services	(22,752,333)
Cash paid to employees and for benefits	(39,089,039)
Net cash used in operating activities	(17,941,048)
NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental revenues	30,800,094
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(5,014,249)
Proceeds from sale of assets	117,015
Security deposits received	(11,016)
Withdrawals from reserve accounts	(53,349)
Principal payments on borrowed funds	(1,099,590)
Proceeds from new debt	2,275,037
Interest expense	(183,444)
Net cash used in capital and related financing activities	(3,969,596)
INVESTING ACTIVITIES	
Interest income	188,736
Net cash provided by investing activities	188,736
Net increase in cash and cash equivalents	9,078,186
CASH AND CASH EQUIVALENTS	
Beginning of year	25,978,594
End of year	$ 35,056,780

(Continued)

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

RECONCILIATION TO STATEMENT OF NET POSITION	
Cash and cash equivalents	$ 35,044,055
Cash and cash equivalents, restricted	12,725
	$ 35,056,780
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (15,675,692)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,479,312
Changes in:	
Accounts receivable	(3,285,431)
Prepaid expenses	(41,487)
Other receivables	(256,430)
Inventories	(37,086)
Deferred outflows of resources	942,682
Accounts payable	(153,678)
Accrued liabilities	16,535
Accrued payroll and compensated absences	2,185,587
Net pension liability	(10,825,078)
Deferred inflows of resources	7,709,718
Net cash used in operating activities	$ (17,941,048)

The Notes to Financial Statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

A. Organization – Mount Rogers Community Services (the "Board") is a jointly governed entity that acts as an agent for the counties of Bland, Carroll, Grayson, Smyth, and Wythe, and the City of Galax, established under Chapter 5 of Title 37.2 of the *Code of Virginia* to establish and operate treatment programs for community mental health, developmental disabilities, and substance abuse disorders. The Board is made up of representatives of those jurisdictions. The Board is charged by the Virginia Department of Behavioral Health and Developmental Services with providing a system of comprehensive community mental health, developmental disabilities, and substance use services which relate to and are integrated with existing and planned programs within the limits of aforesaid jurisdictional boundaries. The Board currently provides these services through the operation of mental health clinics, industrial and developmental centers, residential programs, and substance use programs throughout the program area.

B. Financial Reporting Entity – The Board has adopted the provisions of Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*. This statement provides guidance to determine whether certain organizations should be reported as a component unit based on the nature and significance of their relationship with the Board. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the Board. The financial statements include all funds, agencies, boards, commissions, and authorities that the Board has determined should be included as a component unit. The component units discussed below are blended component units and are included in the Board's reporting entity because of the significance of their operational or financial relationships with the Board.

1. Mount Rogers Community Services, Inc. holds title to certain real property on behalf of the Board. The Board can impose its will on the organization since it is managed by employees of the Board. The members of the Mount Rogers Community Services, Inc. are the same individuals who are board members of Mount Rogers Community Services. Separately issued financial statements can be obtained from Mount Rogers Community Services, Inc.

2. Mount Rogers Community Services Employee Trust was created to provide health and dental benefits to the Board's employees. The Board sets rates and subsidizes the Trust fund as well as providing management functions. The Mount Rogers Community Services Board Employee Trust does not issue separate financial statements.

The Board's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. As a result, the financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Board's overall financial position and results of operations.

C. Basis of Accounting and Financial Statement Presentation – The Board 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 financial statements of the Board have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America (GAAP) for governmental health care reporting entities.

Pursuant to recommendations by the State Department of Behavioral Health and Developmental Services (DBHDS), local, state, and federal allocations (considered "subsidies" as defined by GASB and DBHDS) are presented as non-operating revenues.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

F. Inventory – The Board recognizes inventory at lower of cost or market. Inventory is priced using the FIFO method. Inventory consists of raw materials, work-in-process, and finished goods for the manufacturing process at the Industrial Development Centers and electronic equipment maintained for programs throughout the catchment area.

G. Capital Assets – The Board capitalizes and depreciates all capital assets that have a value of $5,000 or greater. Property, plant, and equipment purchased are stated at cost or estimated cost. Donated property is recorded at acquisition value prevailing at date of donation. Depreciation has been provided for capital assets and depreciated on a straight-line basis over the estimated useful lives of property and equipment as follows:

	Years
Buildings	40
Leasehold improvements	15
Office furniture and equipment	3-5
Vehicles	3-5

Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset. In leases where a purchase option is reasonably certain of being exercised, the asset is amortized over the useful life, unless the underlying asset is nondepreciable in which the leased asset is not amortized.

H. Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

I. Net Client Service Revenue – Net client service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net client service revenue as are charges for charity services. Retroactive adjustments, if any, are reported in operations in the year of settlement.

J. Cash and Cash Equivalents – For purposes of the statement of cash flows, Mount Rogers Community Services considers all highly liquid debt instruments purchased with an original maturity of three months or less from the date of acquisition to be cash equivalents.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

K. Financial Assistance and Allowance for Uncollectible Accounts – The Board 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 Board 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 Board does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

The Board calculates its allowance for doubtful accounts using historical collection data, and in most cases, specific account analysis. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. The receivables shown in the financial statements are shown net of allowances for doubtful accounts. The allowance for doubtful accounts totaled $1,092,823 for 2022.

L. Income Taxes – As a political subdivision of the Commonwealth of Virginia, the Board is exempt from federal and state income taxes.

M. Advertising – Advertising costs are charged to operations when incurred.

N. Risk Management – The Board is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Workman's Compensation Insurance is provided through the Virginia Association of Counties (VaCorp) Self Insurance Group. Benefits are those afforded through the Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65-2-100. Premiums are based upon covered payroll, job rates, and claims experience.

The Board provides general liability, machinery, property, and automotive insurance through a policy with the VaCorp Self Insurance Group. General and business automobile liability has a $5,000,000 aggregate limit. Professional liability and public officials' liability with a $1,000,000 limit are covered through a policy with the Commonwealth of Virginia.

Healthcare Insurance coverage is provided to the employees through a policy with Local Choice/Anthem, which is a Commonwealth of Virginia pooled plan. Partial premiums are withheld from the employee's earnings and remaining premiums are paid by the Board. Retired employees who meet the Board's criteria for coverage are covered by the program.

There were no significant reductions in insurance coverage from the prior fiscal year and no settlements that exceeded the amount of insurance coverage during the current or preceding years.

O. Settlements Due To/From Third-Party Programs and Contractual Adjustments – A significant portion of the Department's services are rendered to patients covered by Medicare, Medicaid, or Insurance Companies. These third-party payers have entered into contractual arrangements with the Board for reimbursement of services provided to patients. Generally, third-party payers, at the lower of cost of charges or at prospectively determined rates reimburse the Board for patient services.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

O. Settlements Due To/From Third-Party Programs and Contractual Adjustments (Continued)

In accordance with the third-party payer agreements, the difference between covered charges, whether based upon allowable costs of services or prospectively determined rates and the Board's standard billing rates result in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered.

The annual settlements from reimbursement of patient services covered by third-party programs are determined through cost reports, which are subject to audit and retroactive adjustment by these third-parties. The settlements receivable or payable from third-party programs are recorded in the accompanying financial statements.

P. Budgets and Budgetary Accounting – The Board's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The Board's largest funding source is fee-for-service payments, primarily Medicaid and other insurers. Federal, state, and local appropriations are also significant revenue sources that have periods that may or may not coincide with the Board's fiscal year. These appropriations normally are for a twelve-month period; however they can be awarded for periods shorter or longer than twelve months.

Because of the Board's dependency on uncertain fee revenues and on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The Board's annual budget differs from that of a local government due to the uncertain nature of fee-for-service payments from other payers.

The annual budget is subject to constant change within the fiscal year due to:

- The extent to which fee revenues are realized.
- Increases/decreases in actual appropriation from those estimated.
- Unanticipated appropriations not included in the budget.
- Expected appropriations that fail to materialize.

The Board of Directors formally approves the annual budget. If a revision is needed, the Board of Directors formally approves a revised annual budget.

Q. Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has three items which qualify for reporting in this category. One item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, changes in assumptions, and the net difference between projected and actual earning on pension plan investments. The second item is comprised of contributions to the pension and other postemployment benefits (OPEB) plans made during the current year and subsequent to the net pension liability measurement date which will be recognized as a reduction of the net pension liability next fiscal year. The third item relates to changes in proportionate share between measurement dates on the OPEB liability. For more detailed information on these items, please reference the pension and OPEB notes.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Q. Deferred Outflows/Inflows of Resources (Continued)

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

Lease-related amounts are recognized at the inception of leases in which the Board is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

R. 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 Board's Retirement Plan and the additions to/deductions from the Board'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.

S. Investments – The Board's money market investments that have a remaining maturity at the time of purchase of one year or less are measured at fair value.

T. Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

U. Adoption of new accounting standard – Effective July 1, 2021, the Board adopted Government Accounting Standards Board (GASB) Statement No. 87, *Leases*. The following discussion provides the Board's accounting policy regarding lease agreements.

During the year of implementation of GASB 87, leases have been recognized and measured using the facts and circumstances that existed at the beginning of the year of implementation (i.e., as of July 1, 2021). The Board's leases in place at the implementation date had no prepayments (payments made at or before the commencement of the lease) and contained no incentives, as such, the lease receivable and lease liability have been recognized and measured at the same amount as the related deferred inflow of resources and right-to-use lease asset, respectively, as of the implementation date (July 1, 2021).

(Continued)

1. Summary of Significant Accounting Policies (Continued)

V. Leases – Key estimates and judgements include how the Board determines (1) the discount rate it uses to discount the expected lease receipts and/or payments to present value, (2) lease term, and (3) lease receipts and/or payments.

- The Board uses an estimated incremental borrowing rate as the discount rate for lease.
- The lease term includes the noncancellable periods of the lease. Lease receipts and payments are included in the measurement of the lease receivable or liability, respectively, and are composed of fixed payments.
- The Board monitors changes in circumstances that would require a remeasurement of its leases, and will remeasure if certain changes occur that are expected to significantly affect the amount of the lease receivable or liability.

W. Right-of-use lease asset and related lease liability – The Board is a lessee for noncancellable leases of buildings and equipment. The Board recognized an intangible right-to-use asset (lease asset) and a related lease liability on the financial statements. At the commencement of a lease, the Board initially measures a lease liability at the present value of payments expected to be made during the lease period. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain direct costs. Subsequent to the initial measurement and recognition, the lease asset is amortized on a straight-line basis over its useful life.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt in the statement of net position.

2. Deposits and Investments

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

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

The Board’s investments as of June 30, 2022 were rated by Standard and Poor and the ratings are presented below using the Standard and Poor’s rating scale.

	Rating		
Rated Investment Type	**AAAm**	**Unrated**	**Total**
Money Market Fund	$ 53,986	$ -	$ 53,986

2. Deposits and Investments (Continued)

Custodial Credit Risk – For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The Board invests only in those investments authorized by the *Code of Virginia*. Therefore the custodial credit risk is minimized.

Concentration of Credit Risk – If certain investments in any one issuer represents 5% of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore the Board does not have any investments for this disclosure requirement.

Interest Rate Risk – In accordance with its investment policy, the Board manages its exposure to declines in fair values by limiting the maturity of its investments to less than six months.

Investments are categorized below to give an indication of the level of risk assumed by the Board at year-end.

Investment Type	Fair Value	Less Than 1 Year
Money Market Fund	$ 53,986	$ 53,986

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Board categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Board maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date.
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices.
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

(Continued)

3. Fair Value Measurements (Continued)

The Board has the following recurring fair value measurements as of June 30, 2022:

Investment		Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	$ 53,986	$ 53,986	$ -	$ -

4. Capital Assets

A summary of capital assets is as follows:

	Beginning Balance*	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	$ 1,222,774	$ 422,901	$ -	$ 1,645,675
Construction in progress	40,798	1,859,456	-	1,900,254
Total non-depreciable assets	1,263,572	2,282,357	-	3,545,929
Depreciable assets:				
Buildings and improvements	27,345,561	2,569,135	-	29,914,696
Equipment and vehicles	7,650,680	162,564	(1,080,034)	6,733,210
Total depreciable assets	34,996,241	2,731,699	(1,080,034)	36,647,906
Accumulated depreciation:				
Buildings and improvements	(8,592,172)	(815,538)	-	(9,407,710)
Equipment and vehicles	(5,767,658)	(663,581)	888,743	(5,542,496)
Total accumulated depreciation	(14,359,830)	(1,479,119)	888,743	(14,950,206)
Net depreciable assets	20,636,411	1,252,580	(191,291)	21,697,700
Capital assets, net	21,899,983	3,534,937	(191,291)	25,243,629
Right-of-use leased assets:				
Buildings	732,147	-	-	732,147
Less accumulated amortization	-	(228,584)	-	(228,584)
Lease assets, net	732,147	(228,584)	-	503,563
Total capital assets, net	$ 22,632,130	$ 3,306,353	$ (191,291)	$ 25,747,192

*As restated for GASB Statement No. 87.

4. Capital Assets (Continued)

Intangible right-to-use lease assets:

In 2022, the Board implemented the guidance in GASB No. 87, *Leases*, and recognized the value of buildings leased for various Board services. Included in one of the building leases is a separate equipment lease.

5. Local Government Revenue

The following are the local revenue receipts for the year ended June 30, 2022:

Bland County	$ 38,500
Carroll County	130,500
City of Galax	39,500
Grayson County	52,000
Smyth County	195,982
Wythe County	164,349
	$ 620,831

6. Long-Term Liabilities

A summary of long-term liabilities follows:

	Beginning Balance*	Increases/ Issuances	Decreases/ Retirement	Ending Balance	Due Within One Year
Notes from Direct Borrowings:					
Signature Public Funding Corporation	$ 2,786,500	$ -	$ 185,200	$ 2,601,300	$ 191,300
Rural Development Note Payable	814,735	-	814,735	-	-
First Bank & Trust Note Payable	-	2,100,000	31,672	2,068,328	192,264
710 West Ridge Rd Note Payable	2,820,000	-	67,983	2,752,017	69,441
Lease Liabilities	732,147	-	216,910	515,237	225,949
Compensated Absences	2,106,726	-	45,653	2,061,073	-
	$ 9,260,108	$ 2,100,000	$ 1,362,153	$ 9,997,955	$ 678,954

*As restated for GASB Statement No. 87.

6. Long-Term Liabilities (Continued)

A detail summary of long-term liabilities follows:

710 West Ridge Rd Rural Development Note, unsecured note dated June 3, 2021. Monthly principal and interest reductions totaling $10,604 with interest at a rate of 2.125%, maturing May 3, 2051.	$ 2,752,017
Signature Public Funding Corporation Note, original loan of $3,228,800, dated December 13, 2019 4% interest, yearly principal reductions and semi-annual interest payments. Matures August 1, 2038, secured by real estate.	2,601,300
First Bank and Trust Note Payable, issued April 7, 2022 for $2,100,000. Interest rate of 2% with a maturity date of April 7, 2032.	2,068,328
	$ 7,421,645

Annual requirements to amortize long-term liabilities:

	Notes from Direct Borrowings		Lease Liabilities	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2023	$ 453,004	$ 199,978	$ 225,949	$ 8,217
2024	469,176	188,445	125,557	4,590
2025	480,457	174,880	97,550	2,386
2026	496,550	160,971	25,365	963
2027	507,759	146,526	10,076	724
2028-2032	2,742,334	500,525	30,740	936
2033-2037	733,958	199,514	-	-
2038-2042	498,350	137,890	-	-
2043-2047	554,162	82,078	-	-
2048-2052	485,895	23,097	-	-
	$ 7,421,645	$ 1,813,904	$ 515,237	$ 17,816

7. Compensated Absences

Compensated Absences for Employees Hired Prior to January 1, 2014:

Employees with up to six months of service earn annual leave at the rate of 7.5 hours per month. Employees with six months to five years of service earn annual leave at the rate of 10.63 hours per month. For employee service greater than five years but less than ten years, time is earned at a rate of 14.38 hours per month. After ten years, annual leave is earned by the employee at a rate of 16.38 hours per month. Annual leave is accrued up to 21 days and is paid upon termination or retirement. Employees accrue sick leave at the rate of 11.25 hours per month. Accumulation of sick leave is unlimited during continued employment. Upon separation from the Board's employment, employees with at least five consecutive years of full time employment will be eligible to receive a one-time cash payment for unused sick leave. This sick leave payout is the lesser of 25% of the unused sick leave balance or the following amounts: five year service is a maximum payout of $1,500; ten year service is a maximum payout of $3,000; fifteen year service is a maximum payout of $4,500; twenty year service is a maximum payout of $6,000; twenty-five year service is a maximum payout of $7,500 and a thirty plus service is a maximum payout of $9,000.

Compensated Absences for Employees Hired on or after January 1, 2014:

Employees who were hired on or after January 1, 2014 will earn paid time off (PTO) at a rate of 12.5 hours per month during the first year of employment through the fifth year of employment. For employees with service greater than five years but less than ten years of time will earn 16.25 hours per month. After ten years, time will accrue at a rate of 18.75 hours per month. Accumulation of PTO time is limited to 157.5 hours for the first five years of employment, 202.5 hours for the sixth through the tenth year, and 217.5 hours for eleven years and beyond. PTO time of up to 21 days can be paid upon termination or retirement.

The Board has outstanding accrued vacation pay that totals $717,245, sick leave accrual of $521,579 and PTO accrual of $822,249 as of June 30, 2022.

8. Surety Bond

The Board maintains a surety bond insurance policy as part of its regular liability insurance. The insurance is maintained with VaCorp and the amount of coverage is $250,000.

9. Leases

In 2022, the Board implemented the guidance of GASB No.87, *Leases*, which for lessees requires reporting an intangible right to use asset and a lease liability for long-term leases that had previously been reported as operating leases.

Short-term leases

Mount Rogers Community Services, Inc. leases office space and other facilities to the Board. All such rentals are intercompany agreements and, as such, activity is eliminated in consolidation. Such leases are not required to be reflected as liabilities under GASB No. 87 due to their inter entity nature.

10. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. This represents a liability incurred by the Board for monies accepted from a grantor using the advance method for payment. The Board has unearned revenue comprised of the following:

Money received from federal and state agencies in advance of the expenditure. All monies restricted for a specific purpose are carried over into the next fiscal year.	$ 12,826,450
Money received from individuals and third-party insurance companies for services to be provided. If an individual pre-pays for a service or money is received by the Board in error, these funds are accumulated until at what time they can be refunded or applied to an account for payment on services.	15,507
Money received from localities charged to individuals attending the drug court.	16,300
	$ 12,858,257

11. Contingent Liabilities

Federal programs in which the Board participates were audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of material noncompliance were disclosed by the 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.

12. Restricted Assets – Held in Trust

The Board manages several individual funds. The Board segregates these monies held on behalf of the individuals served and considers them as a fiduciary responsibility. These funds are shown aggregated as an asset entitled “restricted asset – held in trust” and are also reflected as a liability titled “liability for funds held in trust.” These accounts totaled $190,823 at June 30, 2022.

13. Restricted Cash

The Board has a loan with Rural Development which requires a reserve equal to one year's payment be accumulated. This reserve is to be accumulated at a rate of $1,060 per month until the entire amount of $127,248 is accumulated and restricted. At June 30, 2022, $12,725 has been reflected as restricted cash for this purpose.

14. Defined Benefit Pension Plan

Plan Description

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

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

- https://www.varetire.org/members/benefits/defined-benefit/plan1.asp,
- https://www.varetire.org/members/benefits/defined-benefit/plan2.asp,
- https://www.varetirement.org/hybrid.html.

Employees Covered by Benefit Terms

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Members
Inactive members or their beneficiaries currently receiving benefits	104
Inactive members:	
Vested inactive members	80
Non-vested inactive members	122
Inactive members active elsewhere in VRS	57
Total inactive members	259
Active members	589
Total covered employees	952

14. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Board's contractually required contribution rate for the year ended June 30, 2022 was 6.58% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2020.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $1,730,673 and $1,577,268 for the years ended June 30, 2022 and 2021, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

(Continued)

14. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.00%	1.58%
Fixed Income	15.00	0.57	0.07
Credit Strategies	14.00	4.49	0.75
Real Assets	14.00	4.76	0.86
Private Equity	14.00	9.94	1.17
MAPS – Multi-Asset Public Strategies	6.00	3.29	0.18
PIP – Private Investment Partnership	3.00	6.84	0.19
Total	100.00%		4.80
Inflation			2.50
*Expected arithmetic nominal return			7.30%

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.81%, including expected inflation of 2.50%.

14. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater. From July 1, 2020 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2020	$ 52,762,132	$ 45,146,358	$ 7,615,774
Changes for the year:			
Service cost	2,255,644	-	2,255,644
Interest	3,488,225	-	3,488,225
Changes of assumptions	876,964	-	876,964
Differences between expected and actual experience	(1,808,017)	-	(1,808,017)
Contributions – employer	-	1,388,387	(1,388,387)
Contributions – employee	-	1,096,555	(1,096,555)
Net investment income	-	12,477,419	(12,477,419)
Benefit payments, including refunds of employee contributions	(2,169,454)	(2,169,454)	-
Administrative expenses	-	(29,850)	29,850
Other changes	-	1,188	(1,188)
Net changes	2,643,362	12,764,245	(10,120,883)
Balances at June 30, 2021	$ 55,405,494	$ 57,910,603	$ (2,505,109)

14. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability of the Political Subdivision using the discount rate of 6.75%, as well as what the Political Subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political Subdivision's net pension liability (asset)	$ 5,487,528	$ (2,505,109)	$ (8,992,992)

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

For the year ended June 30, 2022, the Board recognized pension expense of ($583,414). At June 30, 2022, the Political Subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 78,812	$ 2,017,433
Changes in assumptions	1,475,672	155,106
Net difference between projected and actual earnings on pension plan investments	-	6,249,464
Employer contributions subsequent to the measurement date	1,730,673	-
Total	$ 3,285,157	$ 8,422,003

14. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $1,730,673 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2023	$ (1,764,379)
2024	(1,606,854)
2025	(1,485,605)
2026	(2,010,681)
2027	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2021 Comprehensive Annual Financial Report. A copy of the 2021 VRS Comprehensive Annual Financial Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Board also participates in cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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

15. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Plan Descriptions (Continued)

Group Life Insurance Program (Continued)

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2019. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2022 Contribution	$141,113
June 30, 2021 Contribution	$132,016

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

The net OPEB liabilities were measured as of June 30, 2021 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2022 proportionate share of liability	$	1,388,859
June 30, 2021 proportion		0.1193%
June 30, 2020 proportion		0.1254%
June 30, 2022 expense	$	82,171

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

15. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 158,404	$ 10,582
Changes in assumptions	76,567	190,026
Net difference between projected and actual earnings on OPEB plan investments	-	331,491
Changes in proportion	101,875	75,478
Employer contributions subsequent to the measurement date	141,113	-
	$ 477,959	$ 607,577

The deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,	Decrease to OPEB Expense
2023	$ (43,148)
2024	(36,140)
2025	(48,211)
2026	(109,727)
2027	(33,505)
Thereafter	-

(Continued)

15. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Investment rate of return, net of expenses, including inflation*	GLI: 6.75%

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

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 14.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2021, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB liability	$ 3,577,345
Plan fiduciary net position	2,413,073
Employers' net OPEB liability (asset)	1,164,271
Plan fiduciary net position as a percentage of total OPEB liability	67.45 %

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

16. Litigation

At June 30, 2022, there were no matters of litigation involving the Board or which would materially affect the Board's financial position should any court decisions on pending matters not be favorable to the Board.

17. Line of Credit

The Board has a $10,000,000 revolving bank line of credit which bears interest at a variable rate (2.75% at June 30, 2021). The line is payable on demand and has an annual renewal. The next renewal date is December 16, 2022. There were no amounts outstanding on the line at June 30, 2022.

18. Upcoming Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

18. <u>Upcoming Pronouncements (Continued)</u>

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2022

	Plan Year Ended June 30,		
	2021	**2020**	**2019**
Total Pension Liability			
Service cost	$ 2,255,644	$ 2,303,202	$ 2,150,030
Interest on total pension liability	3,488,225	3,260,699	3,025,211
Difference between expected and actual experience	(1,808,017)	(185,569)	98,895
Changes of assumptions	876,964	-	1,618,742
Benefit payments, including refunds of employee contributions	(2,169,454)	(1,845,695)	(1,761,367)
Net change in total pension liability	2,643,362	3,532,637	5,131,511
Total pension liability – beginning	52,762,132	49,229,495	44,097,984
Total pension liability – ending	55,405,494	52,762,132	49,229,495
Plan Fiduciary Net Position			
Contributions – employer	1,388,387	1,405,886	1,379,442
Contributions – employee	1,096,555	1,178,970	1,155,801
Net investment income	12,477,419	832,273	2,749,669
Benefit payments, including refunds of employee contributions	(2,169,454)	(1,845,695)	(1,761,367)
Administrative expenses	(29,850)	(27,491)	(25,512)
Other	1,188	(1,018)	(1,740)
Net change in plan fiduciary net position	12,764,245	1,542,925	3,496,293
Plan fiduciary net position – beginning	45,146,358	43,603,433	40,107,140
Plan fiduciary net position – ending	57,910,603	45,146,358	43,603,433
Net pension liability – ending	$ (2,505,109)	$ 7,615,774	$ 5,626,062
Plan fiduciary net position as a percentage of total pension liability	104.52%	85.57%	88.57%
Covered employee payroll	$ 23,968,547	$ 25,494,860	$ 24,356,288
Net pension liability as a percentage of covered employee payroll	-10%	30%	23%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

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

The Notes to Required Supplementary Information are an integral part of these schedules.

Plan Year Ended June 30,				
2018	2017	2016	2015	2014
$ 2,024,924	$ 2,060,627	$ 2,084,897	$ 2,052,217	$ 2,029,879
2,871,431	2,702,931	2,457,389	2,300,997	2,063,206
(1,063,379)	(249,800)	169,967	(1,120,054)	-
-	(717,076)	-	-	-
(1,510,880)	(1,268,175)	(1,140,872)	(857,080)	(535,063)
2,322,096	2,528,507	3,571,381	2,376,080	3,558,022
41,775,888	39,247,381	35,676,000	33,299,920	29,741,898
44,097,984	41,775,888	39,247,381	35,676,000	33,299,920
1,564,202	1,496,594	1,526,709	1,534,637	2,012,595
1,082,727	1,039,755	966,873	971,352	960,348
2,717,069	3,908,620	564,555	1,259,817	3,448,725
(1,510,880)	(1,268,175)	(1,140,872)	(857,080)	(535,063)
(22,128)	(20,897)	(17,332)	(15,399)	(16,211)
(3,447)	(3,545)	(227)	(275)	182
3,827,543	5,152,352	1,899,706	2,893,052	5,870,576
36,279,597	31,127,245	29,227,539	26,334,487	20,463,911
40,107,140	36,279,597	31,127,245	29,227,539	26,334,487
$ 3,990,844	$ 5,496,291	$ 8,120,136	$ 6,448,461	$ 6,965,433
90.95%	86.84%	79.31%	81.92%	79.08%
$ 22,603,742	$ 21,242,628	$ 19,674,596	$ 19,578,839	$ 19,099,555
18%	26%	41%	33%	36%

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2022

Year Ended June 30,	Contractually Determined Contribution	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	$ 1,730,673	$ 1,730,673	$ -	$ 26,303,612	6.58 %
2021	1,577,268	1,577,268	-	23,968,547	6.58
2020	1,576,893	1,576,893	-	25,494,860	6.19
2019	1,502,783	1,502,783	-	24,356,288	6.17
2018	1,656,102	1,656,102	-	22,603,742	7.33
2017	1,497,576	1,497,576	-	21,242,628	7.05
2016	1,526,709	1,526,709	-	19,674,596	7.76
2015	1,534,637	1,534,637	-	19,578,839	7.84

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

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY - VRS
June 30, 2022

Entity Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Group Life Insurance – General Employees					
2022	0.119 %	1,388,859	23,968,547	5.79 %	67.45 %
2021	0.125	2,093,054	25,494,860	8.21	52.64
2020	0.124	2,021,000	24,356,288	8.30	52.00
2019	0.118	1,805,000	22,603,742	7.99	51.22
2018	0.115	1,733,000	21,242,628	8.16	48.86

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS - VRS
June 30, 2022

Year Ended June 30,		Contractually Required Contribution		Contributions in Relation to Contractually Required Contribution		Contribution Deficiency (Excess)		Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll	
Virginia Retirement System – Group Life Insurance – General Employees										
2022	$	141,113	$	141,113	$	-	$	26,303,612	0.54	%
2021		132,016		132,016		-		23,968,547	0.55	
2020		135,241		135,241		-		25,494,860	0.53	
2019		127,546		127,546		-		24,356,288	0.52	
2018		118,410		118,410		-		22,603,742	0.52	

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No change to salary scale.
- No change to discount rate.
- Applicable to: Pension and GLI OPEB

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

- Update mortality table to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Scape MP-2020.
- Adjusted retirement rates to better fit experience for Plan 1; set separate rates based on experience for Plan2/Hybrid; changed final retirement age from 75 to 80 for all.
- Adjusted withdrawal rates to better fit experience at each year and service through 9 years of service.
- No change to disability rates.
- No changes to salary scale.
- No change to discount rate.
- Applicable to: Pension and GLI OPEB

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OTHER
SUPPLEMENTARY INFORMATION

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF NET POSITION
June 30, 2022

	Mount Rogers Community Services	Regional and Special Project Fiscal Agent	Employee Benefit Trust
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 27,147,991	$ 4,561,835	$ 2,956,948
Accounts receivable (net of allowance for doubtful accounts)	6,830,933	-	-
Prepaid expenses	750,869	-	-
Other receivables	809,062	-	-
Other assets	12,732	-	-
Inventories	1,221,853	-	-
Total current assets	36,773,440	4,561,835	2,956,948
RESTRICTED CURRENT ASSETS			
Loan proceeds held by lender	-	-	-
Cash and cash equivalents - restricted	12,725	-	-
Restricted deposits and funded reserves	53,986	-	-
Restricted assets – held in trust	190,823	-	-
Total restricted current assets	257,534	-	-
Total current and restricted current assets	37,030,974	4,561,835	2,956,948
NONCURRENT ASSETS			
Amount due from component unit	479,171	-	-
Net pension asset	2,505,109	-	-
Security deposits	-	-	-
Property and equipment (net of accumulated depreciation)	16,650,382	-	-
Total assets	56,665,636	4,561,835	2,956,948
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	3,285,157	-	-
Deferred outflows related to other postemployment benefits	477,959	-	-
Total deferred outflows of resources	3,763,116	-	-
Total assets and deferred outflows of resources	$ 60,428,752	$ 4,561,835	$ 2,956,948

(Continued)

Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
$ 377,281	$ -	$ 35,044,055
-	-	6,830,933
-	-	750,869
-	-	809,062
-	-	12,732
-	-	1,221,853
377,281	-	44,669,504
161,721	-	161,721
-	-	12,725
-	-	53,986
-	-	190,823
161,721	-	419,255
539,002	-	45,088,759
-	(479,171)	-
-	-	2,505,109
11,377	-	11,377
9,096,810	-	25,747,192
9,647,189	(479,171)	73,352,437
-	-	3,285,157
-	-	477,959
-	-	3,763,116
$ 9,647,189	$ (479,171)	$ 77,115,553

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF NET POSITION
June 30, 2022

	Mount Rogers Community Services	Regional and Special Project Fiscal Agent	Employee Benefit Trust
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 1,427,374	$ -	$ -
Accrued interest payable	42,476	-	-
Accrued liabilities	26,762	-	-
Unearned revenues	8,296,422	4,561,835	-
Accrued payroll	2,354,001	-	-
General obligations, current obligations	417,249	-	-
Total current liabilities	12,564,284	4,561,835	-
LONG-TERM LIABILITIES			
Compensated absences	2,061,073	-	-
Security deposits	-	-	-
Net other postemployment benefit liability	1,388,859	-	-
General note obligations, net of current obligations	2,699,288	-	-
Total long-term liabilities	6,149,220	-	-
OTHER LIABILITIES			
Liability for funds held in trust	190,823	-	-
Total liabilities	18,904,327	4,561,835	-
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to lease rents	12,844	-	-
Deferred inflows related to pensions	8,422,003	-	-
Deferred inflows related to other postemployment benefits	607,577	-	-
Total deferred inflows of resources	9,042,424	-	-
NET POSITION			
Net investment in capital assets	13,533,845	-	-
Restricted	2,762,643	-	-
Unrestricted	16,185,513	-	2,956,948
Total net position	32,482,001	-	2,956,948
Total liabilities, deferred inflows of resources, and net position	$ 60,428,752	$ 4,561,835	$ 2,956,948

Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
$ 12,518	$ -	$ 1,439,892
6,933	-	49,409
479,171	(479,171)	26,762
-	-	12,858,257
-	-	2,354,001
261,705	-	678,954
760,327	(479,171)	17,407,275
-	-	2,061,073
7,641	-	7,641
-	-	1,388,859
4,558,640	-	7,257,928
4,566,281	-	10,715,501
-	-	190,823
5,326,608	(479,171)	28,313,599
-	-	12,844
-	-	8,422,003
-	-	607,577
-	-	9,042,424
4,276,465	-	17,810,310
-	-	2,762,643
44,116	-	19,186,577
4,320,581	-	39,759,530
$ 9,647,189	$ (479,171)	$ 77,115,553

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2022

	Mount Rogers Community Services	Regional and Special Project Fiscal Agent
OPERATING REVENUES		
Third-party fees	$ 35,247,971	$ -
Contract sales	9,133,820	-
Contributions	11,335	-
Rent	-	-
Health care benefit payments	-	-
Other income	361,899	-
Total operating revenues	44,755,025	-
OPERATING EXPENSES		
Personnel	39,089,104	543,960
Staff development	163,314	6,389
Facilities	2,280,126	833,633
Equipment/supplies	4,681,258	32,734
Travel	429,804	5,093
Contract services	6,320,303	3,463,483
Miscellaneous	388,035	10,978
Amortization	228,584	-
Depreciation	1,296,936	-
Total operating expenses	54,877,464	4,896,270
Operating income (loss)	(10,122,439)	(4,896,270)
NONOPERATING REVENUE (EXPENSE)		
Interest income	173,141	-
Interest expense	(123,765)	-
Primary government/component unit transfers (to) from	(1,365,918)	-
Loss on sale/disposal of assets	(74,276)	-
Intergovernmental revenues:		
Commonwealth of Virginia	12,469,830	4,260,635
Federal Government	6,235,763	625,000
Local Governments	610,196	10,635
Total nonoperating revenue (expense)	17,924,971	4,896,270
Change in net position	7,802,532	-
NET POSITION		
Beginning of year	24,679,469	-
End of year	$ 32,482,001	$ -

Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
$ 5,692	$ -	$ -	$ 35,253,663
-	-	-	9,133,820
1,877	5	-	13,217
-	370,596	(193,650)	176,946
2,296,146	-	(2,296,146)	-
-	-	-	361,899
2,303,715	370,601	(2,489,796)	44,939,545
-	-	(2,296,146)	37,336,918
-	-	-	169,703
-	83,404	(193,650)	3,003,513
-	292	-	4,714,284
-	-	-	434,897
3,065,058	-	-	12,848,844
-	169	-	399,182
-	-	-	228,584
-	182,376	-	1,479,312
3,065,058	266,241	(2,489,796)	60,615,237
(761,343)	104,360	-	(15,675,692)
15,595	-	-	188,736
-	(68,575)	-	(192,340)
-	1,365,918	-	-
-	-	-	(74,276)
-	-	-	16,730,465
-	-	-	6,860,763
-	-	-	620,831
15,595	1,297,343	-	24,134,179
(745,748)	1,401,703	-	8,458,487
3,702,696	2,918,878	-	31,301,043
$ 2,956,948	$ 4,320,581	$ -	$ 39,759,530

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

	Mount Rogers Community Services	Regional and Special Project Fiscal Agent
OPERATING ACTIVITIES		
Receipts from individuals served and users	$ 41,225,986	$ -
Cash paid to suppliers for goods and services	(15,303,573)	(4,896,270)
Cash paid to employees and for benefits	(39,089,039)	-
Net cash provided by (used in) operating activities	(13,166,626)	(4,896,270)
NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues	24,214,221	6,585,873
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,621,606)	-
Proceeds from sale of assets	117,015	-
Net security deposits paid	(75)	-
Withdrawals from reserve accounts	(53,349)	-
Principal payments on borrowed funds	(999,935)	-
Proceeds from new debt	-	-
Primary government/component unit transfers (to) from	(361,204)	-
Interest expense	(117,204)	-
Net cash used in capital and related financing activities	(3,036,358)	-
INVESTING ACTIVITIES		
Interest income	173,141	-
Net cash provided by investing activities	173,141	-
Net increase (decrease) in cash and cash equivalents	8,184,378	1,689,603
CASH AND CASH EQUIVALENTS		
Beginning of year	18,976,338	2,872,232
End of year	$ 27,160,716	$ 4,561,835

(Continued)

Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
$ 2,303,737	$ 370,601	$ 43,900,324
(2,484,500)	(67,990)	(22,752,333)
-	-	(39,089,039)
(180,763)	302,611	(17,941,048)
-	-	30,800,094
-	(3,392,643)	(5,014,249)
-	-	117,015
-	(10,941)	(11,016)
-	-	(53,349)
-	(99,655)	(1,099,590)
-	2,275,037	2,275,037
-	361,204	-
-	(66,240)	(183,444)
-	(933,238)	(3,969,596)
15,595	-	188,736
15,595	-	188,736
(165,168)	(630,627)	9,078,186
3,122,116	1,007,908	25,978,594
$ 2,956,948	$ 377,281	$ 35,056,780

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

	Mount Rogers Community Services	Regional and Special Project Fiscal Agent
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 27,147,991	$ 4,561,835
Cash and cash equivalents, restricted	12,725	-
	$ 27,160,716	$ 4,561,835
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ (10,122,439)	$ (4,896,270)
Adjustments to reconcile to operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,296,936	-
Changes in:		
Accounts receivables	(3,285,453)	-
Prepaid expenses	(631,898)	-
Other receivables	(256,430)	-
Inventories	(37,086)	-
Deferred outflows of resources	942,682	-
Accounts payable	(159,700)	-
Accrued liabilities	16,535	-
Primary fund transfers (to) from	-	-
Accrued payroll and compensated absences	2,185,587	-
Net pension and OPEB liability	(10,825,078)	-
Deferred inflows of resources	7,709,718	-
Net cash provided by (used in) operating activities	$ (13,166,626)	$ (4,896,270)

Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
$ 2,956,948	$ 377,281	$ 35,044,055
-	-	12,725
$ 2,956,948	$ 377,281	$ 35,056,780
$ (761,343)	$ 104,360	$ (15,675,692)
-	182,376	1,479,312
22	-	(3,285,431)
581,005	9,406	(41,487)
-	-	(256,430)
-	-	(37,086)
-	-	942,682
(447)	6,469	(153,678)
-	-	16,535
-	-	-
-	-	2,185,587
-	-	(10,825,078)
-	-	7,709,718
$ (180,763)	$ 302,611	$ (17,941,048)

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COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S 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
Mount Rogers Community Services
Wytheville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities*, *Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Mount Rogers Community Services (the "Board"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 23, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's 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. **We did identify one deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.**

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's 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 financial statements. 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 that are required to be reported under *Government Auditing Standards*.**

Board's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Board's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 23, 2022

BROWNEDWARDS
certified public accountants

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

To the Board of Directors
Mount Rogers Community Services
Wytheville, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Compliance for Each Major Federal Program

We have audited Mount Rogers Community Services' (the "Board") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2022. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Board 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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal documentation of the Board's compliance with the compliance requirements referred to above.

Report on Compliance for Each Major Federal Program (Continued)

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Board's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Board's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Board's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Board's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Board's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Board's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 23, 2022

MOUNT ROGERS COMMUNITY SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass-Through:			
Virginia Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services	93.958	N/A	$ 1,072,052
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	956,260
Substance Abuse & Mental Health Services – Projects of Regional & National Significance	93.243	N/A	50,707
COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	575,000
Opioid STR	93.788	N/A	1,005,680
Direct Grant:			
COVID-19 - Provider Relief Funds	93.498	N/A	703,494
Section 223 Demonstration Programs to Improve Community Mental Health Services - Certified Community Behavioral Health Clinic Expansion Grants	93.829	N/A	1,872,866
Total Department of Health and Human Services			6,236,059
Department of Education:			
Pass-Through:			
Virginia Department of Education:			
Special Education – Grants for Infants and Families	84.181	N/A	70,136
Total Expenditures of Federal Awards			$ 6,306,195

MOUNT ROGERS COMMUNITY SERVICES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Note A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Board under programs for the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

Note B. Summary of Significant Accounting Policies

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Pass-through entity identifying numbers are presented where available.
3. The Board did not elect the 10% de minimus indirect cost rate.

Note C. Subrecipients

The Board did not have any subrecipients for the year ended June 30, 2022.

Note D. Outstanding Loan Balances

At June 30, 2022, the Board had no outstanding loan balances requiring continuing disclosure.

Note E. Provider Relief Funds

The amount reported for Provider Relief Funds on this Schedule is based upon the September 2021 reporting due to Health and Human Services that covers all amounts received by the Board through June 30, 2021.

MOUNT ROGERS COMMUNITY SERVICES

SUMMARY OF COMPLIANCE MATTERS
June 30, 2022

As more fully described in the Independent Auditor's 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*, we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal program selected for testing.

MOUNT ROGERS COMMUNITY SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** relating to the audit of the financial statements was reported in the Independent Auditor's 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings** relating to the major programs.
7. The programs tested as major were:

	Assistance Listing Number
Block Grants for Community Mental Health Services	93.958
Block Grants for Prevention and Treatment of Substance Abuse	93.959

8. The threshold for distinguishing Type A and B programs was **$750,000**.
9. The Board was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001: Auditor Adjustments (Material Weakness)

Condition: Adjustments were proposed as a result of our audit procedures to correct an error in transferring a capital asset, reduce the allowance for doubtful accounts, correct compensated absences, increase accounts payable for unrecorded retainage payable, increase the lease liabilities for an error in the calculation of the liability balance, and decrease deferred outflows related to other postemployment benefits.

Criteria: Given the nature of the Board's close out processes, care should be taken that all year-end adjustments are completed and completed accurately.

Cause: Entries were missed during the close out process or errors were made in some entries that were posted.

Effect: While taken individually, these adjustments were not material, the collective result of the adjustments was material corrections to the financial statements.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2022-001: Auditor Adjustments (Material Weakness) (Continued)

Recommendation: Care should be taken that all adjustments are completed and completed accurately. Management should ensure processes are in place to aid this.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the adjustments made by the auditors and understands that while the adjustments are not material individually, can be deemed material in aggregate. These adjustments apply to entries made to convert the cash basis monthly books to the accrual basis audited financial statements numbers. While this is not a justification, we offer the following reasons associated with the adjustments. The Agency has seen extensive growth in the fiscal year. New growth has occurred thru new federal Substance Abuse and Mental Health Services Administration (SAMSHA) grants and new funds from the Department to begin programs such as the Peer House Program. The Geriatric Transitional Center, and the Nursing Home Pilot Program. These additional programs along with the day-to-day activities have increased staff's work-load tremendously. In the mist of the rapid growth, the Agency was struggling with staff recruitment. The Agency was working with realtors and creditors to purchase real estate to consolidate physical locations for programs and to have physical locations for new programs. And the Agency was adopting a new accounting and reporting standard for leases. The Agency is evaluating the processes for adjustments at the end of the year conversion and will be updating and adjusting controls to prevent adjustments from occurring in the future. The Agency has also added an additional staff to help monitor the financial responsibilities.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

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