

MOUNT ROGERS COMMUNITY  
SERVICES BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Financial Statements**  
**For the Year Ended June 30, 2015**

**TABLE OF CONTENTS**

	<u>Page</u>
Board of Directors and Officials	1
Independent Auditors' Report	2-4
Management's Discussion and Analysis	5-21
Financial Statements:	
Statement of Net Position	22
Statement of Revenue, Expenses and Changes in Net Position	23
Statement of Cash Flows	24
Notes to Financial Statements	25-52
Required Supplementary Information:	
Schedule of Components of and Changes in Net Pension Liability and Related Ratios	53
Schedule of Employer Contributions	54
Notes to Required Supplementary Information	55
Other Supplementary Information:	
Combining Financial Statements:	
Combining Statement of Net Position	56
Combining Statement of Revenue, Expenses and Changes in Net Position	57
Combining Statement of Cash Flows	58
Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	59-60
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required By OMB Circular A-133	61-62
Schedule of Expenditures of Federal Awards	63
Schedule of Findings and Questioned Costs	64

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Board of Directors and Officials**  
**For Year Ended June 30, 2015**

**Officers**

Mr. Joe Bean – Chairperson  
Mr. Sandy Troth – Vice Chairperson  
Ms. Mary Coulson – Treasurer  
Ms. Beverly Mountain - Secretary

**Board of Directors**

**Bland County**

Ms. Sue Ellen Tate

**Carroll County**

Ms. Mava Vass  
Mr. Kevin Campbell  
Ms. Mary Coulson

**City of Galax**

Mr. Robert Kirby

**Grayson County**

Ms. Carolyn Davis  
Ms. Sandra Troth

**Smyth County**

Ms. Susan Sneed  
Ms. Susie Jennings  
Ms. Beverly Mountain  
Mr. J. Howard Burton

**Wythe County**

Ms. Denise Grego  
Mr. Gary Housemen  
Mr. Joe Bean

**Officials**

Lisa Moore – Executive Director  
Sarah Beamer – Director of Finance and Administrative Services  
Frank Dowell – Director of Industrial Development Centers  
Anna Chase – Director of Youth Services  
Mark Larsen – Director of Adult Behavioral Health Services  
M. Shane Ashby – Director of Intellectual and Development Services  
Kimberly Taylor – Director of ID/DD Case Management Services

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Mount Rogers Community Services Board, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

## ***Opinion***

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

## ***Change in Accounting Principle***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 5-21 and 53-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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

### *Report on Summarized Comparative Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2015, 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 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 Mount Rogers Community Services Board internal control over financial reporting and compliance.

*Robinson, Jarma, & Associates*

Blacksburg, Virginia  
November 4, 2015

## ***Mount Rogers Community Services Board***

### **Management's Discussion and Analysis**

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

Following this MD&A are the basic financial statements of the Board, 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 regarding the schedule of expenditures of federal awards also is included.

### **Mission Statement and Organization**

Mount Rogers Community Services Board is dedicated to improving the quality of life for people with mental, physical and substance use intervention needs. The Board is committed to respecting people's right 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 Board was established to provide services to the residents of Bland, Carroll, Grayson, Smyth and Wythe counties and the City of Galax. The Board has approximately 20 sites and maintains a service presence in approximately 33 schools throughout the catchment area.

### **Overview of Financial Statements**

The basic financial statements of the Mount Rogers Community Services Board are presented in a proprietary fund format in accordance with the principles of an enterprise fund. Enterprise funds may be used to report an activity for which a fee is charged to external users for goods and services. The Board is encouraged by the Department of Behavioral Health and Developmental Services 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 Board's financial statements are reported on the full accrual basis in accordance with U.S. generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Mount Rogers Community Services Board provides behavioral health care services in the areas of mental health, intellectual disabilities and substance use intervention, placing the Board in the health care arena. The Board is a local government agency established under Chapter 10 of Title 37.1 of the Code of Virginia (1950 as amended); 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*.

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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The Board is funded partially by federal, state and local funds. 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 in the financial statements.

#### **Basic Financial Statements**

The basic financial statements report information about the Board using the accrual basis of accounting similar to those used by private-sector companies. All of 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 Net Position, which are included in the basic financial statements, report information about the Board and its activities in a way that helps the reader understand how the Board as a whole has performed during the year.

The Statement of Net Position displays the Board's assets, liabilities and the changes in them (referred to as net position). Changes in net position (increases and decreases) represent one metric by which to measure the financial health of the Board and identify whether its financial position is improving or deteriorating. 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, however, such as changing individual needs and competition for services, to assess the overall financial health of the Board.

The Statement of Revenues, Expenses, and Changes in Net Position presents the operating results of the Board for the fiscal year ended June 30, 2015. This statement shows how the Board performed in a given time period (July 1, 2014 to June 30, 2015), 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.

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 organization. The Statement of Cash Flows, when taken together with the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, provide the reader a complete snapshot of the financial condition of the Board as of June 30, 2015.

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

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Board's progress in funding its obligation to provide pension and other post-employment benefits (OPEBs) to its employees.



## ***Mount Rogers Community Services Board***

### **Management's Discussion and Analysis**

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#### **Component Units**

One of the component units included as a part of these financial statements is Mount Rogers Community Services, Inc., a non-profit corporation established in the late 1970's as a financing requirement with the Virginia Housing Development Authority. A separate financial statement is prepared for this component unit and submitted as required to the Virginia Housing Development Authority and the Virginia Department of Behavioral Health and Developmental Services.

The other component unit included in the financial statements is the Employee Benefit Trust. The Trust was established in 1990 when the Board began to self-insure for employee medical coverage. The Trust has since 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.

#### **Financial Analysis**

As noted earlier, net position may serve as a useful indicator of a Board'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 \$11,508,723. This amount of net position is a good indicator that the Board's financial position is stable. The Board's overall net position decreased \$6,639,798 from the prior fiscal year. This decrease is comprised of two amounts: (1) a \$7,265,392 decrease representing the restatement of the beginning of the year net position for implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*; and (2) an increase of \$625,594 in net position for current fiscal year activity, representing the net income generated in the current fiscal year.

A large portion of the Board's net position (66.8%) 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 Board uses these capital assets primarily to provide services to its participating localities; consequently, these assets are not available for future spending. Although the Board'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 Board's net position (4.4%) represents resources that are subject to external restrictions as to how they may be used. The remaining balance of \$3,311,696 is unrestricted and may be used to meet the Board's ongoing obligations to its citizens and creditors.

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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At the end of the current fiscal year, the Board is able to report positive balances in all reported categories of net position, both for the Board as a whole, as well as for its component units. The same situation held true for the prior fiscal year.

The following table reflects the condensed Statements of Net Position:

#### **Summary of Statements of Net Position**

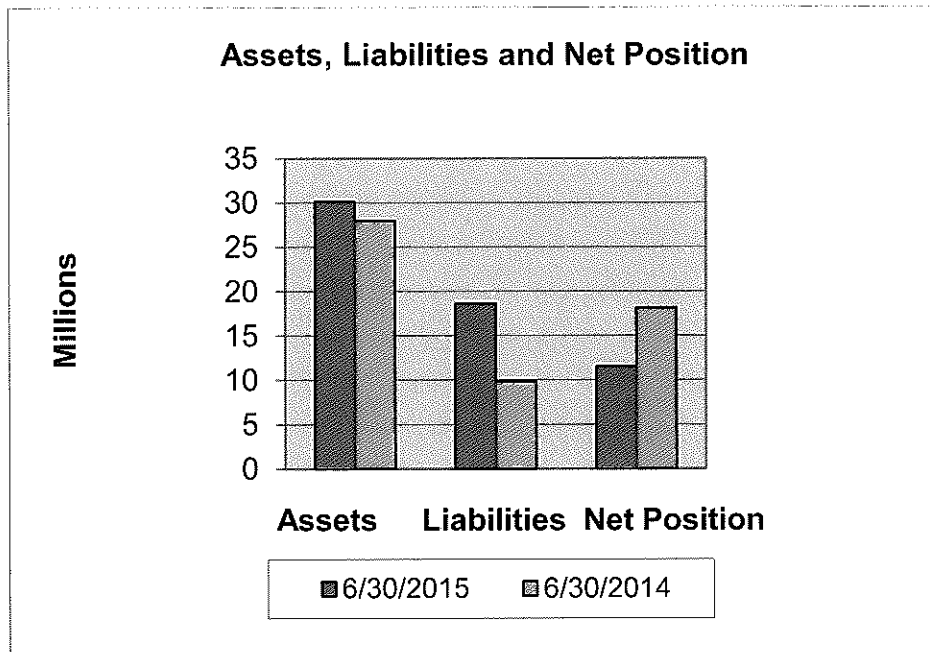
	<b><u>Year Ending June 30, 2015</u></b>	<b><u>Year Ending June 30, 2014</u></b>
Current and other assets	\$ 16,166,305	\$ 15,150,675
Capital assets	12,390,121	12,797,581
Total deferred outflows of resources	<u>1,535,052</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 30,091,478</u>	<u>\$ 27,948,256</u>
Current liabilities	\$ 3,632,277	\$ 3,303,492
Long-term liabilities	13,339,515	6,440,646
Other liabilities	65,774	55,597
Deferred inflows of resources	<u>1,545,189</u>	<u>-</u>
Total liabilities and deferred inflows	<u>\$ 18,582,755</u>	<u>\$ 9,799,735</u>
Net Position:		
Net investment in capital assets	\$ 7,691,598	\$ 8,002,741
Restricted	505,429	502,524
Unrestricted	<u>3,311,696</u>	<u>9,643,256</u>
Total net position	<u>\$ 11,508,723</u>	<u>\$ 18,148,521</u>

As noted earlier, the major component of the decrease in overall net position is the result of the implementation of Governmental Accounting Standards Board Statement No. 68, "*Accounting and Financial Reporting for Pensions*." This Statement became effective for financial statements beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by governmental entities for their pensions. This Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses for pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement was implemented during the current year and did not require restatement of the prior year balances. The Board's net pension liability as of June 30, 2015, is \$6,965,433.

*Management's Discussion and Analysis*

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The following chart shows a comparison of assets, liabilities and net position:



The value of cash and cash equivalents increased 7.9% or \$779,606 over the prior fiscal year's amount. The surplus this year of \$625,594 helped to contribute to the Board's increase in cash. Cash also increased as a result of restricted grants that have been received but not expended during the year. These amounts received but not spent are not included in the surplus but are included on the Statement of Net position as unearned revenues, which increased this year by \$144,399. During the current year, the Board's expenditures for purchases of equipment and real estate were small as compared to the prior year, so the effect on cash was minimal.

Accounts receivable for the Board is comprised of three main categories: third party receivables for services billed, contract receivables resulting from IDC sales, and other receivables. Third party receivables for billed services are due from individuals served, Medicare, Medicaid, insurance companies, and other governmental agencies. The amount owed to the Board in connection with service receivables at the end of FY 2015 is \$3,799,270 compared to the prior year's amount of \$3,061,571. The allowance for doubtful accounts also increased from \$485,492 at the end of FY 2014 to \$713,355 in FY 2015. Therefore, the net service receivables change is an increase of \$509,836. Board procedures encourage staff to collect copays before services are rendered, to be diligent in reviewing the balances owed to the Board, and to follow up with third-party payers.

The contract sales receivable balance decreased by \$617,803, from \$1,230,437 at the end of FY 2014 to \$612,634 in FY 2015. While the receivable balance decreased from 2014 to 2015, the revenue from contract sales increased by \$610,218. Invoiced amounts uncollected at June 30 for sales prior to June 30 are reflected in contract sales receivables.

## *Mount Rogers Community Services Board*

### *Management's Discussion and Analysis*

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Board inventories relate to Industrial Development Center (IDC) programs involving contracts with government and corporate customers to provide opportunities for the individuals that we serve to have jobs. The IDC purchases manufacturing supplies and equipment in anticipation of these contracts. The Board had some of these materials on hand at the end of both FY 2014 and FY 2015, reflected as inventory on the balance sheet. This inventory varies relative to the customer orders that the IDC has at any one time. Inventory increased by \$105,837, from \$929,622 at the end of FY 2014 to \$1,035,459 in FY 2015.

Prepaid and other receivables combined increased by \$160,437 from last fiscal year. At the end of FY 2015, monies had been disbursed by the Commonwealth of Virginia for our new Youth Residential Crisis Stabilization Program but were not received by the Board until July. This amount, \$57,000, was recorded as a receivable. The Board also prepaid the license fees at the end of FY 2015 for the payroll and time keeping program (KRONOS) for the next fiscal year. This prepayment totaled \$81,141. These two items were not applicable in the prior year.

The Board separates current assets that are restricted from those that are not. Restricted cash and cash equivalents and deposits and funded reserves relate to certain of the Board's outstanding debt. These amounts represent the monthly accumulation of principal and interest, which are paid to the lender twice each year, in August and February. The restricted assets held in trust have an off-setting liability account, liability for funds held in trust. These funds are those for which the Board has a fiduciary responsibility to individuals for whom we serve as payee agent. The Board serves a total of approximately 125 individuals in this capacity.

Compensated absences increased this year by \$37,277, which is a 2% increase. As the Board employs more staff, the compensated absences balance most likely will grow larger, depending on when staff use their annual leave. Board policy does limit the amount of annual leave an employee can accrue. Each year on January 15, the annual leave resets to the limited amount. This limited amount is based upon each employee's length of service.

Unearned revenues increased \$144,399 or 9.7% over last year. 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 at a later date. The majority of unearned revenue is monies received from state and federal agencies for restricted purposes, which have not yet been spent. Other amounts reflected in unearned revenue include money received from individuals and third-party insurance providers for services not yet earned, \$6,681, and money being held and accumulated for the Veteran's Memorial, \$538.

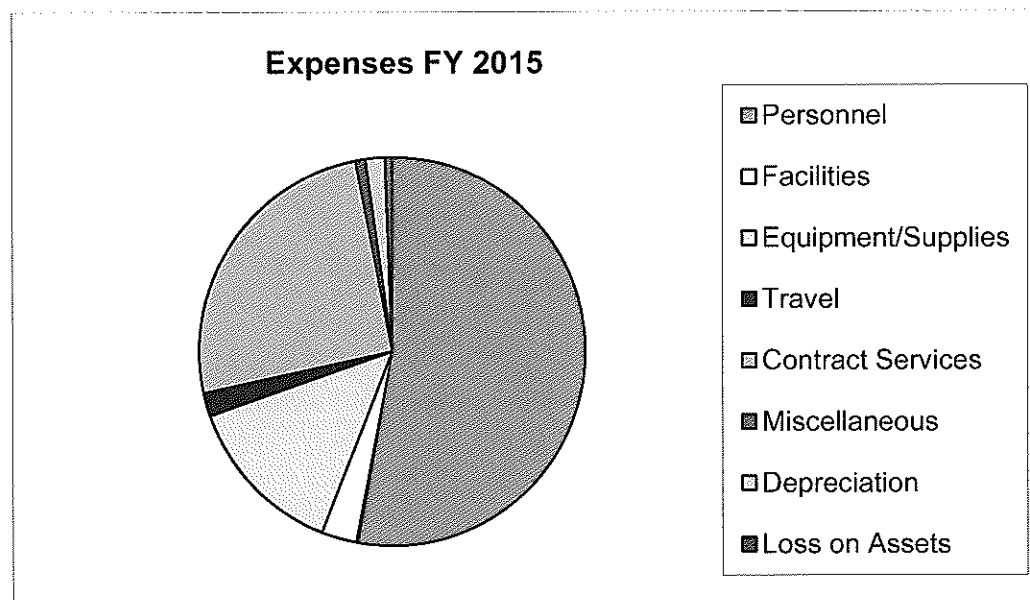
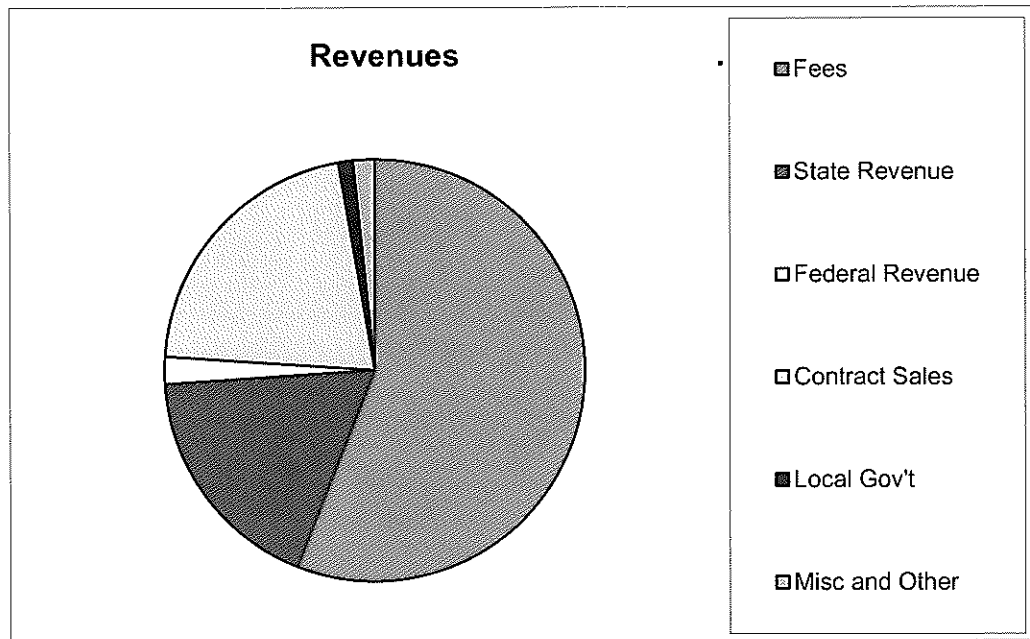
## *Mount Rogers Community Services Board*

### Management's Discussion and Analysis

The following table reflects the condensed revenues and expenses of the Board for FY 2015 and FY 2014.

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

	<b><u>Year Ending June 30, 2015</u></b>	<b><u>Year Ending June 30, 2014</u></b>	<b><u>Increase/ Decrease</u></b>
<b>Revenues</b>			
Operating Revenues:			
Fees	\$ 29,089,054	\$ 28,152,594	3.33%
Contract Sales	11,022,835	10,412,617	5.86%
Contributions/Other Local	8,657	384,171	(97.7%)
Miscellaneous	766,815	1,056,867	(27.45%)
Housing Payments	17,049	17,754	(3.97%)
Non-operating Revenue:			
State Funding	9,349,125	7,194,803	29.94%
Federal Funding	1,086,582	1,065,966	1.93%
Local Governments	557,405	561,151	(0.67%)
Interest Income	<u>64,450</u>	<u>68,717</u>	<u>(6.21%)</u>
<b>Total Revenues</b>	<b><u>\$ 51,961,972</u></b>	<b><u>\$ 48,914,640</u></b>	<b><u>6.23%</u></b>
<b>Expenses</b>			
Operating Expenses:			
Personnel	\$ 27,151,666	\$ 27,128,635	0.08%
Staff Development	71,887	99,717	(27.91%)
Facilities	1,503,633	1,426,193	5.43%
Equipment/Supplies	7,028,506	7,260,861	(3.20%)
Travel	990,487	1,106,303	(10.47%)
Contract Services	13,040,794	9,988,567	30.56%
Miscellaneous	406,472	419,733	(3.16%)
Depreciation	838,397	818,572	2.42%
Non-Operating Expenses			
Interest	291,096	297,359	(2.11%)
Loss on disposal of asset	<u>13,440</u>	<u>167</u>	<u>7,947.90%</u>
<b>Total Expenditures</b>	<b><u>\$ 51,336,378</u></b>	<b><u>\$ 48,546,107</u></b>	<b><u>5.75%</u></b>



Fiscal Year ending June 30, 2015 reflects a slight growth in fees for services revenues. The sources of fee revenues are direct billing to individuals receiving services, Medicaid, Medicare and other private and governmental insurance companies, as well as for services provided to other local agencies on a contractual basis. Fee revenues reflect an increase of 3.33% or \$936,460 compared to FY 2014. This increase in fee revenue is a direct result of increases in the provision of some services, as well as the Board's diligence and determination in billing third parties for services rendered. Included in fees for FY 2015 is a receipt from the Centers for

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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Medicare & Medicaid Services of \$191,250 for the Electronic Health Records Incentive Program ("Meaningful Use"). Also during FY 2015 the Board was awarded a \$200,000 grant from the Wythe-Bland Foundation to use for services for indigent youth in these two counties.

Contract sales revenues increased by \$610,218, or 5.86%, as compared to FY 2014. This fluctuation results primarily from Department of Defense contracts. The IDC continues to have government and corporate contracts. During FY 2015 the IDC worked with other program areas within the Board and external customers to develop a janitorial service, a new offering for the IDC.

Contributions and other local funding decreased by \$375,514 from FY 2014 to FY 2015. These amounts include funding from local agencies for program activities not attached to a specific individual and from general contributions. In FY 2014, contributions included the donation from the Commonwealth of Virginia of a residential facility (Wythe House) that the Board had been leasing from the Commonwealth. This contribution is the reason that FY 2014 contributions were significantly higher than for FY 2015.

Miscellaneous income decreased from last year by \$290,052 or 27.45%. This decrease resulted primarily from the Board's discontinuing as fiscal agent for the PPR 3 Consortia Virginia Wounded Warrior Program, which monitors and coordinates behavioral health, rehabilitative and support services for veterans of any era and members of the National Guard and Reserves not in active federal service. While the Board continues to benefit as an active CSB in this program, the Board no longer runs Consortium funds through Board accounts but receives and expends only those funds specific to the Board.

Regarding state revenue, the Board continues to act as fiscal agent for the Southwest Virginia Behavioral Health Board for Planning Partnership Region 3 (PPR 3) for the purchase of inpatient psychiatric bed days (Local Inpatient Purchase of Services—LIPOS) and the Discharge Assistance Program (DAP). During FY 2015, for these two regional programs the Board received \$2,875,309 of funds to manage and had carried over into FY 2015 from FY 2014 unused funds of \$199,661. Of these amounts \$2,398,102 was expended during FY 2015 for these programs. The Board also acts as fiscal agent for the broader Health Planning Region 3 (HPR 3) Training Consortium. The Department of Behavioral Health and Developmental Services provides framework for funding one project in each of Virginia's Health Planning Regions. HPR 3 identified accessible quality and affordable training as a high need for professional development in Southwestern Virginia. The Consortium strives to meet the needs of behavioral health and intellectual disabilities staff and is a primary resource for professionals needing credits for Licensed Clinical Social Worker (LCSW) and Licensed Professional Counselor (LPC) licensure, as well as Substance Abuse Certification. During the current year, the Board received \$50,685 to manage for this program and had a carryover of funds from FY 2014 of \$26,566. Of this aggregate amount, \$31,695 was expended during FY 2015 for the Consortium.

State revenue increased from last year by \$2,154,322 or 29.94%. During FY 2015, the Department of Behavioral Health and Developmental Services changed the method of awarding

## *Mount Rogers Community Services Board*

### *Management's Discussion and Analysis*

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DAP funds. In prior years, a large majority of the DAP dollars were awarded directly to specific Community Services Boards (CSBs). Beginning July 1, 2014, the entire PPR 3 region's DAP dollars were converted to regional funding and awarded to the Board, as fiscal agent for PPR 3, and the Board was responsible for sending these monies to the CSBs in the region based upon plans approved by the Regional Utilization Management and Consultation Team (RUMCT). Additional funds received in the current year from this change increased the Board's state fund nonoperating revenue, as well as contractual services expenses as the Board remitted funds to the other regional CSBs.

Personnel expenses reflect slight growth, of .08%, during the FY 2015. This increase is the smallest in this category in the last three fiscal years. Because of the budget deficit in FY 2013, hiring was slowed until strategies could be implemented to enhance the Board's efficiency in utilizing personnel. Through FY 2014 and FY 2015, budgets were not strong enough to support hiring additional staff, although staff did receive a 2% bonus in FY 2015. The Board continues to participate in the Virginia Retirement System (VRS). The Board's contribution to the plan was 7.90% and 10.54% of base compensation for FY 2015 and FY 2014, respectively. This contribution percentage reduced as a result of actuarial review by the VRS, and both rates are those certified by the VRS Board of Trustees for these specific periods.

Staff development expenses are down from the prior year by \$27,830 or 27.91%. The most significant reason for this decrease is that in FY 2014 the Board engaged an outside consultant to help implement a new service model called "same day" or "rapid" access. The Board paid this vendor over \$15,000 in FY 2014. Another reason for the decrease is that in the prior year the Board made several payments to staff for completion of educational requirements (\$7,621) that did not occur in the current year. The remaining decrease resulted from a general awareness of budget constraints and, therefore, less training in FY 2015.

Contractual services are up 30.56% or \$3,052,227 from the prior year. A majority of the additional expense comes from the services paid from the DAP monies we received in connection with serving as PPR 3's fiscal agent. Additional DAP expenditures paid this year were \$1,686,300. Other items which had a significant impact include: LIPOS expenditures up \$83,000, Youth Crisis Response & Child Psychiatry Grant expenditures up \$465,000, sponsored residential services payments up \$332,000, and SourceAmerica commissions up \$90,000.

The travel line item decreased by \$115,816 or 10.47%. This decrease can be attributed to a general awareness of budget constraints and, therefore, increased attention given to travel efficiencies during FY 2015.

The Statement of Cash Flows provides relevant information regarding the Board's sources of cash receipts and uses of cash disbursements. The purpose of this statement is to demonstrate the Board's capacity to generate cash flows and its ability to pay routine obligations.

Overall, cash increased this year by \$779,606. The board generated \$1,550,644 in net cash from its operating and noncapital financing activities aggregated for FY 2015. Receipts from individuals served and IDC customers generated \$45,383,013, while receipts from state, federal and local governments were \$11,137,511. Cash outflows to employees and for employee benefits totaled \$37,095,549, and payments for goods and services totaled \$17,874,331.



## ***Mount Rogers Community Services Board***

### **Management's Discussion and Analysis**

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The net cash used by capital and related financing activities amounted to \$542,690. This amount included debt payments on long-term debt to Rural Development, IDA of the County of Stafford and the City of Staunton and the Virginia Housing Authority, all totaling \$96,318. Capital activities also included purchases of capital assets of \$444,591. Other miscellaneous capital and financing activities using \$1,781 of cash round out this category on the Statement of Cash Flows.

Net cash used by investing activities was \$228,348. This amount included the payment of interest expense of \$292,789, partially offset by the receipt of interest income of \$64,441.

### **Capital Assets**

The Board's capital assets net of accumulated depreciation totaled \$12,390,121 on June 30, 2015. This amount represented a net decrease of \$407,460 from the previous fiscal year end. Depreciation expense totaled \$838,397 for the current fiscal year. During this fiscal year, the Board purchased a total of \$445,107 in capital assets. The largest additions to fixed assets were the addition of nine vehicles for a total purchase price of \$254,404. The Board acquired a vacant lot in Smyth County which will be used for parking at a cost of \$20,471 and made various improvements to real estate at a total cost of \$81,617. The Agency will be constructing a building to house our adult residential crisis stabilization unit, which offers short term, sub-acute services for adults. This facility, to be located in Smyth County, has been named the Rhea B. Lawrence Recovery Center. Architecture services for this project were advertised in fall 2013, and expenses for this year totaled \$60,790 in pre-construction costs.

The following table reflects the comparison of Capital Asset components as of June 30, 2015, and June 30, 2014.

<b><u>Description</u></b>	<b><u>FY 2015</u></b>	<b><u>FY 2014</u></b>
Land	\$ 687,011	\$ 666,540
Buildings and Land Improvements	16,428,316	16,360,594
Equipment & Vehicles	4,449,555	4,333,915
Construction in Progress	104,730	43,940
Total	21,669,612	21,404,989
Less Accumulated Depreciation	9,279,491	8,607,408
Net Property & Equipment	<u>\$ 12,390,121</u>	<u>\$ 12,797,581</u>

### **Long-term debt**

During the current fiscal year, the only activity involving long term debt was the payment of principal and interest. No additional debt was issued during the year. Principal payments of \$60,000 were paid on the Board's bond issuance with the IDA of the County of Stafford and the City of Staunton, \$17,768 was paid on the mortgage loan with Rural Development and \$18,549 was paid on the mortgage loan with Virginia Housing Development Authority. Agency long-term indebtedness at June 30, 2015 is \$4,698,523, including the current portion due during FY 2016, of \$103,906.

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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#### **Budgetary Highlights**

The following table reflects the budget to actual comparison for FY 2015.

	<b><u>Initial Budget</u></b>	<b><u>Revised Budget</u></b>	<b><u>Actual</u></b>
Revenues:			
Fees	29,634,187	29,634,187	28,481,427
State Funding	9,102,769	9,102,769	9,624,862
Federal Funding	1,005,059	1,005,059	968,271
Contract Sales	11,044,156	11,044,156	10,958,208
Local Governments	561,151	561,151	557,405
Contribution/Other local	191,834	191,834	56,864
Miscellaneous	229,572	229,572	499,113
Prior year regrant	<u>1,170,131</u>	<u>1,170,131</u>	<u>1,123,538</u>
Total Revenues	<u>52,938,859</u>	<u>52,938,859</u>	<u>52,269,688</u>
Adjustments to Convert Cash-Basis to GAAP Accrual Basis and Include Component Units			<u>(307,715)</u>
Total GAAP Revenues per the Statement of Revenues, Expenses and Changes in Net Position			<u>51,961,972</u>
Expenditures:			
Personnel	33,677,499	33,677,499	31,834,399
Staff Development	104,861	104,861	83,302
Facilities	2,241,216	2,241,216	2,262,714
Equipment/Supplies	7,794,031	7,794,031	7,368,562
Travel	1,168,017	1,168,017	1,012,970
Contract Service	7,566,654	7,566,654	7,742,726
Miscellaneous	<u>340,643</u>	<u>340,643</u>	<u>404,581</u>
Total Expenses	<u>52,892,921</u>	<u>52,892,921</u>	<u>50,709,254</u>
Adjustments to Convert Cash-Basis to GAAP Accrual Basis and Include Component Units			<u>627,124</u>
Total GAAP Expenses per the Statement of Revenues, Expenses and Changes in Net Position			<u>51,336,378</u>

During FY 2015, the Board determined that a mid-year budget revision was not necessary, particularly in light of an administrative reorganization that occurred during the fiscal year. The Board does not budget for non-operating expenses such as depreciation, nor does the Board budget interest income and interest expense.

## *Mount Rogers Community Services Board*

### *Management's Discussion and Analysis*

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#### **Economic Outlook**

After a significant turnaround in financial performance in FY 2014, the Board's change in net position for FY 2015 reflects even stronger performance than that of FY 2014. The Board's change in net position increased by \$625,594, as compared to FY 2014's positive change in net position of \$368,533). (FY 2014's change in net position reflected in the current year financial statements includes a \$377,053 increase in the amount of contributions than shown in last year's financial report, for inclusion of a real estate donation early in FY 2014 that inadvertently was not recorded prior to last year's financial statement audit.) Despite the stronger financial performance in FY 2015, the financial outlook for FY 2016 continues to look tight. The Board is continuing to monitor a set of budget enhancement strategies to improve, or at least maintain, financial performance. The success of these strategies is dependent upon the implementation of tactics in all areas of service and administrative support. For example, these tactics include: researching new funding sources; evaluating the productivity of all programs; identifying cost efficiencies; enhancing reimbursement and billing procedures; and maximizing the utilization of Board services.

These budget enhancement strategies are important in light of various funding uncertainties surrounding the current behavioral health industry and health care in general. Those funding and economic factors that are most critical include:

- Very minimal cost of living increases in state general funding—with directives that Community Services Boards add significant amounts to these increases to fund mandated salary increases
- Enhanced focus by the state on regional funding rather than funding of programs at the individual Community Services Board level
- Increased need to consider private funding sources
- Significant increases in Emergency Services mandates, requiring additional resources
- Medicaid Home and Community Based Services (HCBS) waiver program redesign
- Continuing evolution of Managed Care Organizations (MCO) and their requirements, along with new programs offering benefits to targeted groups of individuals (e.g., Commonwealth Coordinated Care, Governor's Access Plan)
- Conversion of service coding for billing to ICD-10

In August 2015, the Director of Community Contracting for the Virginia Department of Behavioral Health and Developmental Services (DBHDS) confirmed to Community Services Boards that the conditions for a salary increase mandated in Item 467 of the 2015 Appropriations Act had been met. While the mandate was for a two percent salary increase effective September 1, 2015, the Department of Planning and Budget was awarding cost of living allowance (COLA) funding increases in an amount representing a 0.72 percent increase on state general funds dollars. On behalf of Mount Rogers Community Services Board, Lisa Moore, Executive Director, notified DBHDS that, since the \$43,321 of increased funding to the Board was significantly less than the \$400,000 required to fund an annualized two percent salary increase, the Board would use the COLA increase to help restore funding to the Board's employee benefit trust.

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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While state general fund increases are minimal, the state has been more generous with funding at the regional level. The Board serves as fiscal agent for various regional funds, including family support services, consumer support services, Local Inpatient Purchase of Services (LIPOS), and Discharge Assistance Planning (DAP). (The regional partners comprise the Southwest Virginia Behavioral Health Board for Regional Planning and include: Cumberland Mountain Community Services Board, Dickenson County Behavioral Health Services, Highlands Community Services Board, New River Valley Community Services, Planning District 1 Behavioral Health Services, Southwestern Virginia Mental Health Institute, and Southwestern Virginia Training Center, along with Mount Rogers Community Services Board.) During FY 2015, the state awarded the region additional LIPOS funds totaling over \$450,000, more than doubling the initial LIPOS allocation for FY 2015. Since nearly \$300,000 of these additional LIPOS funds were awarded in June 2015, a large carryover of LIPOS funds exists for the region into FY 2016. And, with the transition of DAP funding (in excess of \$2 million) to the regional level in FY 2015 the Board now serves as fiscal agent for over \$3.5 million.

Since state general fund increases are very minimal, the Board increasingly is looking to private funding sources—especially to assist individuals who are uninsured or underinsured, to receive the Board's services. For example, in FY 2015, the Board's youth and family services program applied for and received \$200,000 from the Wythe-Bland Foundation. These funds were used to pay for services for uninsured and underinsured youth in need of the Board's services. The Board applied for additional funding for FY 2016 from the Wythe-Bland Foundation for similar purposes, as well as to enhance family supports for youth receiving services, and was just notified in November 2015 that \$100,000 has been awarded.

In recent years, the state legislature has made several legislative changes to Virginia's civil commitment laws, which will require additional resources from Community Services Boards to fulfill related emergency services mandates. The legislative changes already effective that are most pertinent to Community Services Boards include a requirement to search the state-wide bed registry system and designate employees to submit information to the system and serve as a point of contact for requests for information related to the system and an increase in the emergency custody order enforcement time to eight hours (from four hours plus a possible two-hour extension).

In December 2014, the DBHDS released its report required by Senate Bill 261 and House Bill 1216 of the 2014 Legislative Session, to *review requirements related to qualifications, training and oversight of individuals designated by community services boards to perform evaluations of individuals taken into custody pursuant to an emergency custody order and to make recommendations for increasing such qualifications, training and oversight, in order to protect the safety and well-being of individuals who are subject to emergency custody orders and the public.* That report includes seven recommendations that will result in a fiscal impact for Community Services Boards and the DBHDS to implement. Among other requirements, the recommendations involve new minimum licensing, experiential, orientation, training, and supervision requirements for Crisis Intervention Specialists to be phased in over a five-year transition period (2015 through 2020).

Further, in general, because of the demands of the job, Emergency Services programs are requiring higher salaries to recruit and retain staff. And, a new state Performance Contract requirement stipulates that Community Services Boards (CSBs) provide emergency services telephone call availability to the public 24 hours per day, seven days per week throughout their service areas. *The [telephone] number(s) must provide immediate access to a qualified emergency services staff member*

## ***Mount Rogers Community Services Board***

### ***Management's Discussion and Analysis***

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*... Using an answering service with no immediate transfer to qualified CSB emergency services staff or 911 or the local sheriff's or police departments' phone number does not satisfy this requirement.* Effective July 1, 2015, the Board has retained an answering service to answer emergency services calls and provide a "warm hand-off" to emergency services staff.

On January 16, 2014, the Centers for Medicare and Medicaid Services (CMS) published in the Federal Register a Final Rule on Home and Community Based Services (HCBS). These regulations define, describe, and align home and community-based setting requirements for Medicaid programs. The Final Rule also defines person-centered planning requirements for individuals in home and community based settings under both Medicaid HCBS waiver and HCBS State plan authorities. The regulations were effective March 17, 2014. However, CMS has allotted an implementation period of up to five years, with the expectation that all HCBS Medicaid programs are fully compliant by March 17, 2019. As required by CMS, Virginia is conducting assessments and developing transition plans to achieve full compliance with the regulations by March 17, 2019. The results of these assessments may involve modifications to the Board's residential and day support facilities, downsizing the populations in these programs/facilities, and/or reimbursement rate adjustments for individuals served in these facilities/programs. Virginia's current timeline regarding the waiver redesign is:

- In January 2016 the Building Independence waiver will be phased in.
- In March 2016 the Family & Individual Supports waiver and the Community Living waiver will be phased in.
- In July 2016, the new Group Home rate structure (daily billing vs. the current hourly billing) will become effective (residential rates will take effect at transition and other services will take effect based upon plan year).
- In October 2016, the transition of non-residential individuals (i.e., those living with family) will take effect.
- In January 2017, the new Sponsored Residential rate structure will take effect (residential rates will take effect at transition and other services will take effect by individual plan year).

Regulatory changes and Managed Care Organization (MCO) evolution continue to be cumbersome and time-consuming. The differences between MCO agreements result in varied, and sometimes confusing, requirements. For example, each MCO must credential all of our providers. While some MCOs may use a centralized credentialing data base to approve our providers, other MCOs require primary source verification (involving separate applications for each of our providers). MCOs have narrowed their coverage of services and have tightened their authorization approval processes, resulting in more denied claims and delays in processing services for reimbursement. Four years ago, when MCOs first were coming on the scene, they were involved only in certain Medicaid services—primarily on-site and case management. However, effective December 1, 2013, an MCO began to manage a much more significant portion of Medicaid services, including Home and Community Based Services. Then, in early 2014, the Commonwealth Coordinated Care pilot program, affecting only Wythe County in the Board's service area currently, became operational, in accordance with yet another set of MCO requirements. Most recently, in January 2015, the Department of Medical Assistance Services (DMAS) began a two-year, state-wide demonstration waiver, the Virginia Governor's Access Plan for the Seriously Mentally Ill (GAP), under another package of benefits for individuals with incomes at a specific percentage below the Federal Poverty Level.

## *Mount Rogers Community Services Board*

### *Management's Discussion and Analysis*

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The Centers for Medicare and Medicaid Services required that health care providers transition to ICD-10 effective October 1, 2015. (ICD-10 is the 10<sup>th</sup> revision of the International Statistical Classification of Diseases and Related Health Problems, a medical classification list by the World Health Organization.) This transition required revision to the Board's Electronic Health Record (EHR) and a comprehensive review of service records, to ensure accurate billing and reimbursement for services. So far into the new ICD-10 billing conversion, issues encountered have been minimal, and reimbursement collections do not appear to have been slowed or reduced.

In contrast to these financial stressors, some positive factors are on the horizon for FY 2015. In lieu of general fund increases from the state, the DBHDS is making funds available through grant application processes. While such funds hamper flexibility to a degree (as compared to state general funds), they do allow for innovative programming. The Board has successfully pursued various state grant opportunities which will be funded in FY 2016 (and continue beyond in some cases):

- Telepsychiatry grant award (\$66,572 one-time FY 2015—to be spent by 12/31/15; \$8,586 one-time FY 2016); the Board is using these funds to add/enhance telepsychiatry equipment in seven service sites and to purchase telepsychiatry mobile units
- Crisis Intervention Team (CIT) Assessment Site grant award (\$336,231 ongoing FY 2016; \$16,800 one-time FY 2016; \$335,898 ongoing FY 2017); the Board is using these funds to operate a CIT assessment site from Twin County Regional Hospital in Galax, Virginia
- Crisis Response and Child Psychiatry Funding (\$900,000 ongoing FY 2016; \$57,000 one-time FY 2016); the Board is using these funds to develop and operate a crisis stabilization unit for youth, to serve regional Community Services Boards—most likely to be located in Wythe County

In October 2015, Governor Terry McAuliffe announced that Virginia's DBHDS has been awarded a \$982,400 federal grant from the U.S. Substance Abuse and Mental Health Services Administration (SAMHSA) to plan for establishment of Certified Community Behavioral Health Clinics (CCBHCs) across the state. The federal *Excellence in Mental Health Act* established CCBHCs as a way to improve quality and use evidenced-based practices in mental health. The CCBHC model is one of integrated care (behavioral and physical). Mount Rogers Community Services Board is one of eight Community Services Boards across the state selected to participate in this grant-funded planning process—Phase I. For Phase II, the demonstration phase, eight states will be selected from among the Phase I states to participate in a two-year demonstration program. During the demonstration phase (and presumably on an ongoing basis), CCBHCs will be financially incentivized through enhanced payments to support the provision of nine core high quality, comprehensive services.

The Board is anticipating increases in net revenue in several programs during FY 2016. These programs include: adult and youth mental health case management, intellectual disability case management, group homes, and sponsored residential.

## ***Mount Rogers Community Services Board***

### **Management's Discussion and Analysis**

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In the Industrial Development Centers (IDCs), various potential customers continue to tour the facilities and discuss development of new products with which the IDCs may be involved. One of the IDC's most significant customers, the United States Department of Defense, continues to generate a large volume of business. Department of Defense contracts include those for production of the Advanced Combat Shirt Type II and Enhanced Helmet Covers. The helmet cover contract extends over the next two years. IDC leadership remains involved with SourceAmerica, to maintain an awareness of current and upcoming federal government projects. In addition, the IDC recently engaged the services of an additional contract development resource. The IDCs continue to enjoy serving various companies within our service region, including Blue Ridge Beverage (Gatorade). The IDCs also continue to print products including T-shirts, tote bags, and medicine bags for Naloxene, a prescription medicine that reverses an opioid overdose. All of these various contracts provide employment to individuals with disabilities who receive services in the IDCs.

The Board is planning several construction/renovation projects in Smyth County during FY 2016 (and into FY 2017), including:

- The Board will be building a 6,500-7,000 square-foot facility on a section of property that borders Southwestern Virginia Mental Health Institute, in Marion, recently deeded to the Board by the Commonwealth of Virginia. This property is contiguous to the next two facilities described. The facility to be constructed will be the Rhea B. Lawrence Recovery Center, a crisis stabilization unit providing eight beds for short-term sub-acute services for adult consumers. The Board also is planning for this Crisis Stabilization Unit to be equipped to house individuals placed under a Temporary Detention Order (TDO). The Board currently is in the design phase of this project. Preliminary cost estimates for this project are in the \$1,250,000-plus range.
- The Board will be renovating the Smyth Counseling Center, in Marion, and perhaps building a small entry addition. This 5,000 square-foot facility houses community counseling services for Smyth County. Preliminary estimates for this project are \$500,000.
- The Board will be renovating the 3,000-square foot Friendship House facility, in Marion. Previously, this building housed the Board's Smyth County psychosocial rehabilitation therapy program. This renovation will convert this facility to flexible office and meeting space for various program opportunities in Smyth County, unless the Board identifies a specific program need. Preliminary cost estimates for this project are in the \$250,000 range.

The total cost of these projects approximates (some estimates are preliminary) \$2.0 million. In August 2015, the Agency closed a \$2 million financing for these projects and will use cash reserves, if costs exceed \$2 million. A request for proposal process resulted in the most competitive proposal from First Bank and Trust, for a 4.25% taxable fixed-rate unsecured \$2 million financing on a 5-year amortization.

### **Request for Information**

This financial report is designed to provide our citizens, individuals receiving services, and taxpayers with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be sent in writing to the Director of Financial and Administrative Services, Mount Rogers Community Services Board, 770 West Ridge Road, Wytheville, VA 24382.

## FINANCIAL STATEMENTS



## Exhibit 1

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Statement of Net Position**  
**June 30, 2015**  
**(With Comparative Totals for June 30, 2014)**

	2015	2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 10,597,375	\$ 9,817,769
Accounts receivable (net of allowance for doubtful accounts)	3,691,940	3,735,281
Prepaid items	158,004	62,955
Other receivables	111,291	45,903
Inventories	1,035,459	929,622
Interest receivable	1,033	1,024
Total current assets	<u>\$ 15,595,102</u>	<u>\$ 14,592,554</u>
Restricted current assets:		
Cash and cash equivalents - restricted	\$ 60,588	\$ 60,588
Restricted deposits and funded reserves	444,841	441,936
Restricted assets - held in trust	65,774	55,597
Total restricted current assets	<u>\$ 571,203</u>	<u>\$ 558,121</u>
Property and equipment (net of accumulated depreciation)	<u>\$ 12,390,121</u>	<u>\$ 12,797,581</u>
Total assets	<u>\$ 28,556,426</u>	<u>\$ 27,948,256</u>
Deferred Outflows of Resources:		
Pension contributions subsequent to measurement date	<u>\$ 1,535,052</u>	<u>\$ -</u>
Total assets and deferred outflows of resources	<u><u>\$ 30,091,478</u></u>	<u><u>\$ 27,948,256</u></u>
<u>Liabilities and Net Position</u>		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 1,766,468	\$ 1,634,344
Accrued interest payable	98,544	100,237
Accrued liabilities	7,889	8,104
Unearned revenues	1,488,366	1,343,967
Accrued payroll	167,104	120,458
General obligations, current obligations	103,906	96,382
Total current liabilities	<u>\$ 3,632,277</u>	<u>\$ 3,303,492</u>
Long-term Liabilities:		
Compensated absences	\$ 1,779,465	\$ 1,742,188
Net pension liability	6,965,433	-
General note obligations, net of current obligations	4,594,617	4,698,458
Total long term liabilities	<u>\$ 13,339,515</u>	<u>\$ 6,440,646</u>
Other liabilities:		
Liability for funds held in trust	<u>\$ 65,774</u>	<u>\$ 55,597</u>
Total liabilities	<u>\$ 17,037,566</u>	<u>\$ 9,799,735</u>
Deferred Inflows of Resources		
Items related to measurement of net pension liability	<u>\$ 1,545,189</u>	<u>\$ -</u>
Net Position:		
Net Investment in capital assets	\$ 7,691,598	\$ 8,002,741
Restricted	505,429	502,524
Unrestricted	3,311,696	9,643,256
Total net position	<u>\$ 11,508,723</u>	<u>\$ 18,148,521</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 30,091,478</u></u>	<u><u>\$ 27,948,256</u></u>

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

## Exhibit 2

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2015**  
**(With Comparative Totals for June 30, 2014)**

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Medicaid/Medicare fees	\$ 26,633,415	\$ 26,058,393
Contract sales	11,022,835	10,412,617
Client, insurance and other fees	2,455,639	2,094,201
Contributions	8,657	384,171
Housing assistance payments	17,049	17,754
Health care benefit payments	70,764	42,952
Other income	696,051	1,013,915
	<u>40,904,410</u>	<u>40,024,003</u>
Total operating revenues	\$ 40,904,410	\$ 40,024,003
Operating expenses:		
Personnel	\$ 27,151,666	\$ 27,128,635
Staff Development	71,887	99,717
Facilities	1,503,633	1,426,193
Equipment/Supplies	7,028,506	7,260,861
Travel	990,487	1,106,303
Contract services	13,040,794	9,988,567
Miscellaneous	406,472	419,733
Depreciation	838,397	818,572
	<u>51,031,842</u>	<u>48,248,581</u>
Total operating expenses	\$ 51,031,842	\$ 48,248,581
Operating income (loss)	\$ (10,127,432)	\$ (8,224,578)
Nonoperating revenue (expense):		
Interest income	\$ 64,450	\$ 68,717
Interest expense	(291,096)	(297,359)
Gain (loss) on sale/disposal of assets	(13,440)	(167)
Intergovernmental revenues:		
Commonwealth of Virginia	9,349,125	7,194,803
Federal Government	1,086,582	1,065,966
Local Governments	557,405	561,151
	<u>10,753,026</u>	<u>8,593,111</u>
Total nonoperating revenue (expense)	\$ 10,753,026	\$ 8,593,111
Change in net position	\$ 625,594	\$ 368,533
Net position, beginning of year - as restated	<u>10,883,129</u>	<u>17,779,988</u>
Net position, end of year	<u>\$ 11,508,723</u>	<u>\$ 18,148,521</u>

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

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2015**  
**(With Comparative Totals for June 30, 2014)**

	2015	2014
<b>Cash flows from operating activities:</b>		
Receipts from individuals served and users	\$ 45,383,013	\$ 44,604,350
Cash paid to suppliers for goods and services	(17,874,331)	(16,136,229)
Cash paid to employees and for benefits	(37,095,549)	(35,581,038)
Net cash provided by (used for) operating activities	<u>\$ (9,586,867)</u>	<u>\$ (7,112,917)</u>
<b>Cash flows from noncapital financing activities:</b>		
Intergovernmental revenues	<u>\$ 11,137,511</u>	<u>\$ 9,314,751</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	\$ (444,591)	\$ (2,037,426)
Withdrawals from reserve accounts	4,975	71,295
Principle payments on borrowed funds	(96,317)	(88,976)
Payments to reserve/investment accounts	(7,881)	(3,885)
Due to/from employee	1,000	200
Due to/from affiliates	124	(22)
Net cash provided by (used for) by capital and related financing activities:	<u>\$ (542,690)</u>	<u>\$ (2,058,814)</u>
<b>Cash flows from investing activities:</b>		
Interest expense	\$ (292,789)	\$ (298,943)
Interest income	64,441	68,706
Net cash provided by (used for) by investing activities	<u>\$ (228,348)</u>	<u>\$ (230,237)</u>
Net increase (decrease) in cash	\$ 779,606	\$ (87,217)
Cash and cash equivalents - beginning of year	<u>9,878,357</u>	<u>9,965,574</u>
Cash and cash equivalents - end of year	<u><u>\$ 10,657,963</u></u>	<u><u>\$ 9,878,357</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (10,127,432)	\$ (8,224,578)
Adjustments to reconcile to operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	838,397	818,572
Changes in:		
Accounts payable	132,242	24,516
Inventories	(105,837)	31,972
Accounts receivable	43,341	126,963
Prepays and other receivables	(164,359)	86,641
Deferred outflows of resources	477,543	-
Accrued payroll and compensated absences	83,923	32,301
Unearned revenues	-	(6,199)
Accrued liabilities	2,680	(3,105)
Net pension liability	(2,312,554)	-
Deferred inflows of resources	1,545,189	-
Net cash provided by (used for) operating activities	<u><u>\$ (9,586,867)</u></u>	<u><u>\$ (7,112,917)</u></u>
Supplemental Disclosures:		
Interest paid	<u>\$ 292,789</u>	<u>\$ 298,943</u>

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

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements**  
**June 30, 2015**

1. Summary of Significant Accounting Policies

- A. Organization – The Mount Rogers Community Services Board (CSB) is a local government agency established under Chapter 10 of Title 37.1 of the Code of Virginia (1950 as amended) to implement and operate community mental health, mental retardation, and substance abuse programs in the Virginia counties of Bland, Carroll, Grayson, Smyth, and Wythe, and the City of Galax. 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, intellectual 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 CSB 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 CSB. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. The financial statements include all funds, agencies, boards, commissions, and authorities that the CSB 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. (Carroll House) operates a home for the mentally handicapped. The Board can impose its will on the organization since the Carroll House is managed by employees of the Board. The members of the Mount Rogers Community Service Board, Inc. are the same individuals who are board members of Mount Rogers Community Mental Health and Mental Retardation Services Board. The Board sets rates and charges for the Carroll House. Separately issued financial statements can be obtained from Mount Rogers Community Services, Inc.
  2. Mount Rogers CSB 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 CSB Employee Trust does not issue separate financial statements.

The Agency'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 Agency's overall financial position and results of operations.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

1. Summary of Significant Accounting Policies - Continued

- C. Basis of Accounting and Financial Statement Presentation – The Agency 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 Agency have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America 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) which have previously been presented as operating revenues will now and in the future be presented as non-operating revenues.

- 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 - Sometimes 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.
- G. Property and Equipment – The CSB 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 market 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:
- |                                |              |
|--------------------------------|--------------|
|                                | <u>Years</u> |
| Buildings                      | 40 years     |
| Leasehold improvements         | 15 years     |
| Office furniture and equipment | 3-5 years    |
| Vehicles                       | 3-5 years    |
- H. Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

1. Summary of Significant Accounting Policies – Continued

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

The Agency 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 \$719,964 for 2015 and \$556,727 for 2014.

- L. Income Taxes – As a political subdivision of the Commonwealth of Virginia, the Community Services 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. Mount Rogers Community Services Board is partially self-insured under a component unit Mount Rogers CSB Employee Trust. This is a professionally administered plan for hospitalization and medical expenses for all of Mount Rogers Community Services Board full-time salaried employees. Claims of up to \$90,000 per covered individual per year are covered under the plan, and a reinsurer covers any excess. The Company had estimated claims payable of \$658,779 for June 30, 2015 and \$620,486 for 2014. The Trust had assets of \$777,369 for 2015 and \$1,502,439 for 2014 to service claims, premiums, and administration charges.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

1. Summary of Significant Accounting Policies - Continued

- 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.

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 CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB'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 CSB'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 resultant 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. Comparative totals- Comparative totals have been presented for informational purposes only. Certain prior year amounts have been reclassified to conform to the current year presentation.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

1. Summary of Significant Accounting Policies – Continued

R. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Agency only has one item which qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The deferred outflows of resources as of June 30, 2015 totaled \$1,535,052. For more detailed information on this item, refer to Note 14.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has one item which qualified for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. The deferred inflows of resources as of June 30, 2015 totaled \$1,545,189. For more detailed information on this item, refer to Note 14.

S. 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.

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**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

2. Property and Equipment

A summary of property and equipment is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 666,540	\$ -	\$ -	\$ 666,540
Construction in Progress	<u>43,940</u>	<u>60,790</u>	<u>-</u>	<u>104,730</u>
Total non-depreciable assets	\$ <u>710,480</u>	\$ <u>60,790</u>	\$ <u>-</u>	\$ <u>771,270</u>
Depreciable assets:				
Buildings and Improvements	\$ 16,360,594	\$ 118,563	\$ 30,370	\$ 16,448,787
Equipment and Vehicles	<u>4,333,915</u>	<u>265,754</u>	<u>150,114</u>	<u>4,449,555</u>
Total depreciable assets	\$ <u>20,694,509</u>	\$ <u>384,317</u>	\$ <u>180,484</u>	\$ <u>20,898,342</u>
Accumulated Depreciation:				
Buildings and Improvements	\$ (4,904,078)	\$ (521,104)	\$ 16,938	\$ (5,408,244)
Equipment	<u>(3,703,330)</u>	<u>(317,293)</u>	<u>149,376</u>	<u>(3,871,247)</u>
Total accumulated Depreciation	\$ <u>(8,607,408)</u>	\$ <u>(838,397)</u>	\$ <u>166,314</u>	\$ <u>(9,279,491)</u>
Net depreciable assets	\$ <u>12,087,101</u>	\$ <u>(454,080)</u>	\$ <u>14,170</u>	\$ <u>11,618,851</u>
Total net capital assets	\$ <u>12,797,581</u>	\$ <u>(393,290)</u>	\$ <u>(14,170)</u>	\$ <u>12,390,121</u>

3. 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.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

3. Deposits and Investments (Continued)

Investments: Statutes authorize the Community Service 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).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 year</u>
Mutual Funds	\$ 444,841	\$ 444,841

The funds rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Rated Investment Type</u>	<u>Fair Quality Ratings</u>		<u>Total</u>
	<u>AAA</u>	<u>Unrated</u>	
Mutual Funds	\$ -	\$ 444,841	\$ 444,841

Custodial Credit Risk: For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Community Service 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 Community Service 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 represent 5 percent of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the US government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore the Community Services Board does not have any investments for this disclosure requirement.

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

External Investment Pools: The fair value of the positions in the external investment pools (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

4. Local Government Revenue

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

	<u>2015</u>	<u>2014</u>
Bland County	\$ 26,500	\$ 13,250
Carroll County	145,000	161,996
City of Galax	34,983	34,983
Grayson County	51,000	51,000
Smyth County	166,022	166,022
Wythe County	<u>133,900</u>	<u>133,900</u>
	<u>\$ 557,405</u>	<u>\$ 561,151</u>

5. Long-term Obligations

A summary of long-term obligations follows:

	<u>Beginning Balance</u>	<u>Issuance/ Additions</u>	<u>Retirement/ Deletions</u>	<u>Ending Balance</u>	<u>Amount Current</u>
IDA of the County of Stafford and the City of Staunton Rural Development note Payable	\$ 3,690,000	\$ -	\$ 60,000	\$ 3,630,000	\$ 65,000
Virginia Housing Development Note payable	959,618	-	17,768	941,850	18,655
Compensated absences	145,222	-	18,549	126,673	20,251
	<u>1,742,188</u>	<u>37,277</u>	<u>-</u>	<u>1,779,465</u>	<u>-</u>
Total	<u>\$ 6,537,028</u>	<u>\$ 37,277</u>	<u>\$ 96,317</u>	<u>\$ 6,477,988</u>	<u>\$ 103,906</u>

A detail summary of long-term obligations follows:

	<u>2015</u>	<u>2014</u>
Industrial Development Authority of the County of Stafford and the City of Staunton Virginia, \$4,000,000 Series A bonds, issued February 28, 2008, Variable principal reductions and interest at 6.5% is due semi-annually. Bonds mature August 2038, secured by real estate.	\$ 3,630,000	\$3,690,000
Rural Development, initialized August 8, 2002, monthly principal and interest reductions totaling \$5,049 beginning August 8, 2004, interest only payments due for first two years, 4.5% interest rate, maturing August 8, 2042, secured by real estate	941,850	959,618
Virginia Housing Development Authority mortgage note Payable, 8.82% interest, monthly installments of \$2,551, Maturity August 1, 2020 secured by real estate	<u>126,673</u>	<u>145,222</u>
Total	<u>\$ 4,698,523</u>	<u>\$ 4,794,840</u>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

5. Long-term Obligations (Continued)

Annual Requirements to Amortize Long-Term Obligations:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	103,906	286,138
2017	111,623	279,032
2018	119,550	271,393
2019	127,703	263,201
2020	136,107	254,436
2021-2025	643,023	1,154,229
2026-2030	865,219	926,134
2031-2035	1,185,561	614,091
2036-2040	1,306,061	194,390
2041	<u>99,770</u>	<u>3,958</u>
Total	<u>\$ 4,698,523</u>	<u>\$ 4,247,002</u>

6. 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 10.625 hours per month. For employee service greater than five years but less than ten years time is earned at a rate of 14.375 hours per month. After ten years, annual leave is earned by the employee at a rate of 16.375 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 14.38 hours per month. After ten years, time will accrue at a rate of 16.25 hours per month. Accumulation of PTO time is limited to 75 hours for the first five years of employment, 86.5 hours for the sixth through the tenth year, and 98 hours for eleven years and beyond. PTO time is accrued up to 21 days and is paid upon termination or retirement.

The Mount Rogers Community Services Board has outstanding accrued vacation pay that totals \$1,022,578, sick leave accrual of \$694,999 and PTO accrual of \$61,888 as of June 30, 2015. At June 30, 2014 the outstanding accrued vacation pay totaled \$1,107,390, sick leave outstanding of \$621,822 and PTO time outstanding of \$12,976.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

7. Surety Bond

Mount Rogers Community Services Board maintains a surety bond insurance policy as part of its regular liability insurance. The insurance is maintained with Virginia Association of Counties (VaCorp) and the amount of coverage is \$250,000.

8. Leased Facilities

All facilities utilized by the Board are reflected as operating leases in the financial statements. The annual lease payments on all facilities total \$183,849 in 2015 and \$217,608 in fiscal year 2014.

9. 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. Mount Rogers Community Services Board has unearned revenue comprised of the following:

	<u>2015</u>	<u>2014</u>
Money is 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.	\$ 1,481,148	\$ 1,332,568
The CSB is accepting contributions and accumulating funds for the building of a Veteran's Memorial. These contributions are restricted for the purpose of the memorial and revenue will be deferred until at what time the total obligation of the memorial has been met.	537	6,310
Money is received from individuals and third-party insurance companies for services provided. If an individual pre-pays for a service or money is received by the Agency in error, these funds are accumulated until at what time they can be refunded or applied to an account for payment on services	<u>6,681</u>	<u>5,089</u>
	<u>\$ 1,488,366</u>	<u>\$ 1,343,967</u>

10. Contingent Liabilities

Federal programs in which Mount Rogers Community Services Board participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

10. Contingent Liabilities - Continued

While no matters of 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.

11. Fair Value of Financial Instruments

The following methods and assumptions were used by the Board in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expense approximates its fair value.

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 as an asset titled "restricted asset – held in trust" and is reflected as a liability titled "liability for funds held in trust". These accounts totaled \$65,774 at June 30, 2015 and \$55,597 at June 30, 2014.

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 10% per year until the entire amount of \$60,588 is accumulated and restricted. At June 30, 2015 and 2014 an amount of \$60,588 has been reflected as restricted cash for this purpose.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan

Plan Description

All full-time, salaried permanent (professional) employees of Mount Rogers Community Service Board are automatically covered by VRS upon employment. The 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 duty military service, certain periods of leave and previously refunded service.

Within the VRS Plan, The System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out below::

RETIREMENT PLAN PROVISION		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1:</b>  Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2:</b>  Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b>  The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> </ul>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued  
Plan Description (continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1:</b></p>	<p><b>About Plan 2:</b></p>	<p><b>About the Hybrid Retirement Plan - continued</b></p> <ul style="list-style-type: none"> <li>In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees</li> </ul>
<p><b>Eligible Members</b>  Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b>  VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Eligible Members</b>  Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b>  Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>Eligible Members</b>  Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>Political subdivision employees*</li> <li>Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b>  Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>



**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued  
Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Retirement Contributions</b>  Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b>  Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b>  A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b>  Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b>  Same as Plan 1.</p>	<p><b>Creditable Service</b>  <u><b>Defined Benefit Component:</b></u>  Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

# **MOUNT ROGERS COMMUNITY SERVICES BOARD**

Notes to Financial Statements (Continued)

**June 30, 2015**

14. Pension Plan – Continued  
Plan Description (Continued)

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

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Vesting</b>	<b>Vesting</b>	<b>Vesting (Cont.)</b> <u><b>Defined Contributions Component: (Cont.)</b></u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> Distribution is not required by law until age 70½.
<b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.  An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	<b>Calculating the Benefit</b> See definition under Plan 1.	<b>Calculating the Benefit</b> <u><b>Defined Benefit Component:</b></u> See definition under Plan 1  The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

A. Plan Description

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p>
<p><b>Normal Retirement Age</b>  <b>VRS:</b> Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p><b>Normal Retirement Age</b>  <b>VRS:</b> Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b>  Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

A. Plan Description (Continued)

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

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued  
A. Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b><u>Defined Benefit Component:</u></b>  Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b>  Not applicable.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1 and Plan 2.</p>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued  
A. Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><b><u>Exceptions to COLA Effective Dates: - (Cont)</u></b></p> <ul style="list-style-type: none"> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p>
<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b>  Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	<b>Purchase of Prior Service</b> Same as Plan 1.	<b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <u><b>Defined Contribution Component:</b></u> Not applicable.

Employees Covered by Benefit Terms:

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

Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	11
Non-vested inactive members	35
Inactive members active elsewhere in VRS	<u>13</u>
Total inactive members	59
Active members	<u>488</u>
Total covered employees	<u><u>570</u></u>



**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. 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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Board's contractually required contribution rate for the year ended June 30, 2015 was 7.90% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan for the Community Service Board were \$1,535,052 and \$2,012,595 for the years ended June 30, 2015 and June 30, 2014, respectively.

**Net Pension Liability:**

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

**Actuarial Assumptions – General Employees**

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

**Actuarial Assumptions – General Employees - continued**

return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

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

Update mortality table

Decrease in rates of service retirement

Decrease in rates of disability retirement

Reduce rates of salary increase by 0.25% per year

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging	6.00%	10.00%	.60%
Fixed Income	15.00%	.09%	.01%
Emerging Debt	3.00%	3.51%	.11%
Rate Sensitive Credit	4.50%	3.51%	.16%
Non Rate Sensitive Credit	4.50%	5.00%	.23%
Convertibles	3.00%	4.81%	.14%
Public Real Estate	2.25%	6.12%	.14%
Private Real Estate	12.75%	7.10%	.91%
Private Equity	12.00%	10.41%	1.25%
Cash	<u>1.00%</u>	<u>-1.50%</u>	<u>-.02%</u>
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
	*Expected arithmetic nominal return		<u>8.33%</u>

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

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on,

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

**Discount Rate: continued**

participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2013	\$ 29,741,898	\$ 20,463,911	\$ 9,277,987
Changes for the year:			
Service Cost	2,029,879		2,029,879
Interest	2,063,206		2,063,206
Differences between expected and actual experience			
Contributions - employer		2,012,595	(2,012,595)
Contributions - employee		960,348	(960,348)
Net investment income		3,448,725	(3,448,725)
Benefit payments, including refunds or employee contributions	(535,063)	(535,063)	
Administrative expense		(16,211)	16,211
Other changes		182	182
Net changes	\$ 3,558,022	\$ 5,870,576	\$(2,312,554)
Balances at June 30, 2014	\$ 33,299,920	\$ 26,334,487	\$ 6,965,433

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Board's Net Pension Liability	\$ 12,263,901	\$ 6,965,433	\$ 2,640,202

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

14. Pension Plan – Continued

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

For the year ended June 30, 2015, the Board recognized pension expense of \$1,245,230. At June 30, 2015, the Board 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	\$ 0	\$ 0
Changes in assumptions	0	0
Net difference between projected and actual earnings on plan investments	0	1,545,189
Employer contributions subsequent to the measurement date	1,535,052	0
Total	<u>\$ 1,535,052</u>	<u>\$ 1,545,189</u>

The \$1,535,052 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2016	\$(386,297)
2017	(386,297)
2018	(386,297)
2019	(386,298)
Thereafter	0

15. Litigation

At June 30, 2015, there were no matters of litigation involving the Agency or which would materially affect the Agency's financial position should any court decisions on pending matters not be favorable to the Agency.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

16. Adoption of Accounting Principles:

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

The Board implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a restatement of net position (see Note 17.)

17. Restatement of Net Position:

Beginning net position, as previously reported	\$ 17,772,773
GASB 68 implementation	(7,265,392)
Record fixed assets donated to Agency	<u>375,748</u>
Beginning net position, as restated	<u>\$ 10,883,129</u>

18. Upcoming Pronouncements:

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

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Notes to Financial Statements (Continued)**  
**June 30, 2015**

17. Upcoming Pronouncements: (Continued)

this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

## REQUIRED SUPPLEMENTARY INFORMATION



**Mount Rogers Community Services Board**

**Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
For the Year Ended June 30, 2015**

	<b>2014</b>
<b>Total pension liability</b>	
Service cost	\$ 2,029,879
Interest	2,063,206
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(535,063)
<b>Net change in total pension liability</b>	<b>\$ 3,558,022</b>
<b>Total pension liability - beginning</b>	<b>29,741,898</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 33,299,920</b>
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 2,012,595
Contributions - employee	960,348
Net investment income	3,448,725
Benefit payments, including refunds of employee contributions	(535,063)
Administrative expense	(16,211)
Other	182
<b>Net change in plan fiduciary net position</b>	<b>\$ 5,870,576</b>
<b>Plan fiduciary net position - beginning</b>	<b>20,463,911</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 26,334,487</b>
 <b>Political subdivision's net pension liability - ending (a) - (b)</b>	<b>\$ 6,965,433</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>79.08%</b>
 <b>Covered-employee payroll</b>	<b>\$ 19,334,514</b>
 <b>Political subdivision's net pension liability as a percentage of covered-employee payroll</b>	<b>36.03%</b>

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

**Mount Rogers Community Services Board**Schedule of Employer Contributions  
For the Year Ended June 30, 2015

<b>Date</b>	<b>Contractually Required Contribution (1)</b>	<b>Contributions in Relation to Contractually Required Contribution (2)</b>	<b>Contribution Deficiency (Excess) (3)</b>	<b>Employer's Covered Employee Payroll (4)</b>	<b>Contributions as a % of Covered Employee Payroll (5)</b>
2015	\$ 1,535,052	\$ 1,535,052	\$ -	\$ 19,578,000	2%

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

## Mount Rogers Community Services Board

Notes to Required Supplementary Information  
For the Year Ended June 30, 2015

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

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

**Largest 10 – Non-LEOS:**

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

**Largest 10 – LEOS:**

- Update mortality table
- Decrease in male rates of disability

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

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

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

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

## OTHER SUPPLEMENTARY INFORMATION

## COMBINING FINANCIAL STATEMENTS

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Combining Statement of Net Position**  
**June 30, 2015**

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 9,825,598	\$ 771,712	\$ 65	\$ -	\$ 10,597,375
Accounts receivable (net of allowance for doubtful accounts)	3,691,940	-	-	-	3,691,940
Prepaid expenses	152,374	5,630	2,900	(2,900)	158,004
Other receivables	111,291	27	-	(27)	111,291
Inventories	1,035,459	-	-	-	1,035,459
Interest receivable	1,033	-	-	-	1,033
Total current assets	<u>\$ 14,817,695</u>	<u>\$ 777,369</u>	<u>\$ 2,965</u>	<u>\$ (2,927)</u>	<u>\$ 15,595,102</u>
Restricted current assets:					
Cash and cash equivalents - restricted	\$ 60,588	\$ -	\$ -	\$ -	\$ 60,588
Restricted deposits and funded reserves	359,069	-	85,772	-	444,841
Restricted assets - held in trust	65,774	-	-	-	65,774
Total restricted current assets	<u>\$ 485,431</u>	<u>\$ -</u>	<u>\$ 85,772</u>	<u>\$ -</u>	<u>\$ 571,203</u>
Property and equipment (net of accumulated depreciation)	<u>\$ 11,635,212</u>	<u>\$ -</u>	<u>\$ 754,909</u>	<u>\$ -</u>	<u>\$ 12,390,121</u>
Total assets	<u>\$ 26,938,338</u>	<u>\$ 777,369</u>	<u>\$ 843,646</u>	<u>\$ (2,927)</u>	<u>\$ 28,556,426</u>
Deferred Outflows of Resources:					
Pension contributions subsequent to measurement date	<u>\$ 1,535,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,535,052</u>
Total assets and deferred outflows of resources	<u><u>\$ 28,473,390</u></u>	<u><u>\$ 777,369</u></u>	<u><u>\$ 843,646</u></u>	<u><u>\$ (2,927)</u></u>	<u><u>\$ 30,091,478</u></u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts payable	\$ 1,106,626	\$ 658,779	\$ 1,063		\$ 1,766,468
Accrued interest payable	98,085	-	459	-	98,544
Accrued liabilities	10,816	-	-	(2,927)	7,889
Unearned revenues	1,488,366	-	-	-	1,488,366
Accrued payroll	167,104	-	-	-	167,104
General obligations, current obligations	83,655	-	20,251	-	103,906
Total current liabilities	<u>\$ 2,954,652</u>	<u>\$ 658,779</u>	<u>\$ 21,773</u>	<u>\$ (2,927)</u>	<u>\$ 3,632,277</u>
Long-term Liabilities:					
Compensated absences	\$ 1,779,465	\$ -	\$ -	\$ -	\$ 1,779,465
Net pension liability	6,965,433	-	-	-	6,965,433
General note obligations, net of current obligations	4,488,195	-	106,422	-	4,594,617
Total long term liabilities	<u>\$ 13,233,093</u>	<u>\$ -</u>	<u>\$ 106,422</u>	<u>\$ -</u>	<u>\$ 13,339,515</u>
Other liabilities:					
Liability for funds held in trust	<u>\$ 65,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,774</u>
Total liabilities	<u>\$ 16,253,519</u>	<u>\$ 658,779</u>	<u>\$ 128,195</u>	<u>\$ (2,927)</u>	<u>\$ 17,037,566</u>
Deferred Inflows of Resources					
Items related to measurement of net pension liability	<u>\$ 1,545,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,545,189</u>
<b>Net Position:</b>					
Net investment in capital assets	\$ 7,063,362	\$ -	\$ 628,236	\$ -	\$ 7,691,598
Restricted	419,657	-	85,772	-	505,429
Unrestricted	3,191,663	118,590	1,443	-	3,311,696
Total net position	<u>\$ 10,674,682</u>	<u>\$ 118,590</u>	<u>\$ 715,451</u>	<u>\$ -</u>	<u>\$ 11,508,723</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 28,473,390</u></u>	<u><u>\$ 777,369</u></u>	<u><u>\$ 843,646</u></u>	<u><u>\$ (2,927)</u></u>	<u><u>\$ 30,091,478</u></u>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Combining Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2015**

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
Operating revenues:					
Medicaid/Medicare fees	\$ 26,633,415	\$ -	\$ -	\$ -	\$ 26,633,415
Contract sales	11,022,835	-	-	-	11,022,835
Client, insurance and other fees	2,455,638	20,731	-	(20,730)	2,455,639
Contributions	3,100	5,557	-	-	8,657
Housing assistance payments	-	-	17,049	-	17,049
Health care benefit payments	-	4,526,544	-	(4,455,780)	70,764
Other income	672,887	-	48,455	(25,291)	696,051
Total operating revenues	<u>\$ 40,787,875</u>	<u>\$ 4,552,832</u>	<u>\$ 65,504</u>	<u>\$ (4,501,801)</u>	<u>\$ 40,904,410</u>
Operating expenses:					
Personnel	\$ 31,628,176	\$ -	\$ -	\$ (4,476,510)	\$ 27,151,666
Staff Development	71,887	-	-	-	71,887
Facilities	1,486,658	-	16,975	-	1,503,633
Equipment/Supplies	7,028,506	-	-	-	7,028,506
Travel	987,919	-	2,568	-	990,487
Contract services	7,736,527	5,301,817	7,741	(5,291)	13,040,794
Miscellaneous	408,029	17,592	851	(20,000)	406,472
Depreciation	809,856	-	28,541	-	838,397
Total operating expenses	<u>\$ 50,157,558</u>	<u>\$ 5,319,409</u>	<u>\$ 56,676</u>	<u>\$ (4,501,801)</u>	<u>\$ 51,031,842</u>
Operating income (loss)	<u>\$ (9,369,683)</u>	<u>\$ (766,577)</u>	<u>\$ 8,828</u>	<u>\$ -</u>	<u>\$ (10,127,432)</u>
Nonoperating revenue (expense):					
Interest income	\$ 61,020	\$ 3,214	\$ 216	\$ -	\$ 64,450
Interest expense	(279,094)	-	(12,002)	-	(291,096)
Gain (loss) on sale/disposal of assets	-	-	(13,440)	-	(13,440)
Intergovernmental revenues:					
Commonwealth of Virginia	9,349,125	-	-	-	9,349,125
Federal Government	1,086,582	-	-	-	1,086,582
Local Governments	557,405	-	-	-	557,405
Total nonoperating revenue (expense)	<u>\$ 10,775,038</u>	<u>\$ 3,214</u>	<u>\$ (25,226)</u>	<u>\$ -</u>	<u>\$ 10,753,026</u>
Change in net position	<u>\$ 1,405,355</u>	<u>\$ (763,363)</u>	<u>\$ (16,398)</u>	<u>\$ -</u>	<u>\$ 625,594</u>
Net position, beginning of year - as restated	<u>9,269,327</u>	<u>881,953</u>	<u>731,849</u>	<u>-</u>	<u>10,883,129</u>
Net position, end of year	<u><u>\$ 10,674,682</u></u>	<u><u>\$ 118,590</u></u>	<u><u>\$ 715,451</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,508,723</u></u>

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2015**

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
<b>Cash flows from operating activities:</b>				
Receipts from individuals served and users	\$ 40,764,677	\$ 4,552,832	\$ 65,504	\$ 45,383,013
Cash paid to suppliers for goods and services	(17,826,296)	(17,592)	(30,443)	(17,874,331)
Cash paid to employees and for benefits	(31,831,395)	(5,264,154)	-	(37,095,549)
Net cash provided by (used for) operating activities	<u>\$ (8,893,014)</u>	<u>\$ (728,914)</u>	<u>\$ 35,061</u>	<u>\$ (9,586,867)</u>
<b>Cash flows from noncapital financing activities:</b>				
Intergovernmental revenues	<u>\$ 11,137,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,137,511</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchase of capital assets	\$ (439,616)	\$ -	\$ (4,975)	\$ (444,591)
Withdrawals from reserve accounts	-	-	4,975	4,975
Principle payments on borrowed funds	(77,768)	-	(18,549)	(96,317)
Payments to reserve/investment accounts	(3,184)	-	(4,697)	(7,881)
Due to/from employee	-	1,000	-	1,000
Due to/from affiliates	-	124	-	124
Net cash provided by (used for) capital and related financing activities:	<u>\$ (520,568)</u>	<u>\$ 1,124</u>	<u>\$ (23,246)</u>	<u>\$ (542,690)</u>
<b>Cash flows from investing activities:</b>				
Interest expense	\$ (280,720)	\$ -	\$ (12,069)	\$ (292,789)
Interest income	61,011	3,214	216	64,441
Net cash provided by (used for) investing activities	<u>\$ (219,709)</u>	<u>\$ 3,214</u>	<u>\$ (11,853)</u>	<u>\$ (228,348)</u>
Net increase (decrease) in cash	<u>\$ 1,504,220</u>	<u>\$ (724,576)</u>	<u>\$ (38)</u>	<u>\$ 779,606</u>
Cash and cash equivalents - beginning of year	<u>8,381,966</u>	<u>1,496,288</u>	<u>103</u>	<u>9,878,357</u>
Cash and cash equivalents - end of year	<u><u>\$ 9,886,186</u></u>	<u><u>771,712</u></u>	<u><u>\$ 65</u></u>	<u><u>\$ 10,657,963</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (9,369,683)	\$ (766,577)	\$ 8,828	\$ (10,127,432)
Adjustments to reconcile to operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	809,856	-	28,541	838,397
Changes in:				
Accounts payable	93,357	38,293	592	132,242
Inventories	(105,837)	-	-	(105,837)
Accounts receivables	43,341	-	-	43,341
Prepays and other receivables	(160,829)	(630)	(2,900)	(164,359)
Deferred outflows of resources	477,543	-	-	477,543
Accrued payroll and compensated absences	83,923	-	-	83,923
Unearned revenues	-	-	-	-
Accrued liabilities	2,680	-	-	2,680
Net Pension liability	(2,312,554)	-	-	(2,312,554)
Deferred inflows of resources	1,545,189	-	-	1,545,189
Net cash provided by (used for) operating activities	<u><u>\$ (8,893,014)</u></u>	<u><u>\$ (728,914)</u></u>	<u><u>\$ 35,061</u></u>	<u><u>\$ (9,586,867)</u></u>



COMPLIANCE

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the 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 the business-type activities of Mount Rogers Community Services Board as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Mount Rogers Community Services Board's basic financial statements and have issued our report thereon dated November 4, 2015.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mount Rogers Community Services Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mount Rogers Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Mount Rogers Community Services 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Rogers Community Services 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*Robinson, Finner, & Associates*

Wytheville, Virginia  
November 4, 2015

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

### Report on Compliance for Each Major Federal Program

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

### *Management's Responsibility*

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

### *Auditors' Responsibility*

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

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

### *Opinion on Each Major Federal Program*

In our opinion, the Mount Rogers Community Services 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, 2015.

## Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Robinson, Farmer, Co. Associates*

Wytheville, Virginia  
November 4, 2015

**MOUNT ROGERS COMMUNITY SERVICES BOARD**  
**Schedule of Expenditures of Federal Awards**  
**For Year Ended June 30, 2015**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services:			
Pass Through:			
Department of Behavioral Health Services:			
Block Grants for Community Mental Health Services	93.958	Unknown	\$ 225,207
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Unknown	<u>722,456</u>
Total Department of Health and Human Services			\$ <u>947,663</u>
Department of Transportation:			
Direct Payments:			
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513	N/A	\$ <u>115,976</u>
Department of Education:			
Pass Through:			
State Department of Education:			
Special Education – Grants for Infants and Families	84.181	Unknown	\$ <u>85,058</u>
Total Expenditures of Federal Awards			<u>\$1,148,697</u>

Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Board under programs for the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of 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

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Pass-through entity identifying numbers are presented where available.

**MOUNT ROGERS COMMUNITY SERVICES BOARD**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**Section I – Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with section 510(a) of Circular A-133 No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

93.959

Block Grants for Prevention and  
Treatment of Substance Abuse

Dollar threshold used to distinguish between A and B Programs: \$300,000

Auditee qualified as a low risk auditee? Yes

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Prior Year Findings and Questioned Costs**

None