MOUNT ROGERS COMMUNITY SERVICES

FINANCIAL REPORT

June 30, 2019

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INTRODUCTORY SECTION

MOUNT ROGERS COMMUNITY SERVICES

DIRECTORY OF PRINCIPAL OFFICIALS
For Year Ended June 30, 2019

Officers

Ms. Barbara Bartnik – Chairperson

Ms. Susan Sneed – Vice Chairperson

Ms. Carolyn Davis – Treasurer

Ms. Mary Coulson - Secretary

Board of Directors

Bland County
Ms. Kathy Havens

Carroll County
Mr. Gerald Goad
Ms. Mary Coulson
Ms. Mava Vass

City of Galax
Ms. Sharon Plichta

Grayson County
Ms. Carolyn Davis
Mr. Thomas Revels

Smyth County
Ms. Beverly Mountain
Mr. Joanne Groseclose
Ms. Susan Sneed
Ms. Susie Jennings

Wythe County
Ms. Barbara Bartnik
Mr. Charlie Lester
Mr. Joe Bean

Officials

Sandy Bryant – Executive Director

Sarah Beamer – Director of Finance and Administration Services

Frank Dowell – Director of Industrial Development Centers

Kara Holbrook – Director of Youth Services

Ellen Moriarty – Director of Adult Behavioral Health Services

Wendy Gullion – Director of Intellectual and Community Development Services

Kimberly Taylor – Director of ID/DD Case Management Services

Anna Chase – Deputy Director of Clinical/Program Development

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Mount Rogers Community Services (the "Board"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Auditor's Responsibility (Continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2019, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Board's 2018 financial statements, on which, in our report dated November 19, 2018, we expressed an unmodified opinion. The 2018 financial information is provided for comparative purposes only.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The introductory section and 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 21, 2019

As management of Mount Rogers Community Services (Board), we offer readers of the Board's financial statements this Management's Discussion and Analysis (MD&A)—a narrative overview and analysis of the Board's financial activities for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the financial statements.

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

Mission Statement and Organization

Mount Rogers Community Services is dedicated to improving the quality of life for people with mental, physical and substance use intervention needs. The Board is committed to respecting people's rights to live in their home communities by promoting hope for the future and providing services and supports that promote self-determination, empowerment, recovery, resilience, health, and the highest possible level of individual participation in all aspects of community life, including work, school, family and other meaningful relationships. The Board provides services to the residents of Bland, Carroll, Grayson, Smyth and Wythe counties and the City of Galax. The Board has approximately thirty (30) service sites and maintains a service presence in approximately thirty-eight (38) schools throughout the catchment area.

Overview of Financial Statements

The basic financial statements of the Mount Rogers Community Services are presented in a proprietary fund format in accordance with 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 Virginia Department of Behavioral Health and Developmental Services (DBHDS) to maximize efforts to recover the costs of services rendered, through fees from individuals served, legally liable parties, and third-party coverage such as Medicaid, Medicare and private insurance. Medicaid is the largest fee generator.

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

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

Basic Financial Statements

The basic financial statements report information about the 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 Fund 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.

(Continued)

The Statement of Net Position displays the Board's assets, liabilities and the cumulative changes in them (referred to as net position). A positive net position is one indicator that the Board's operations over the years have resulted in positive financial performance. The Statement of Net Position serves the additional purpose of reflecting the balances left at year-end that are available for spending and any restrictions that apply to those balances. Other non-financial factors will need to be considered, 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 Fund Net Position presents the operating results of the Board for the fiscal year ended June 30, 2019, with comparative operating performance for the fiscal year ended June 30, 2018. This statement shows how the Board performed in the given fiscal years (July 1 to June 30), giving the reader a general breakdown of operations by the main sources of income and the main spending categories. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Changes in net position (increases and decreases) represent one metric by which to measure the financial health of the Board and identify whether its financial position is improving or deteriorating.

A third statement, the Statement of Cash Flows, identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the Board. 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, 2019, with a comparison to June 30, 2018.

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 obligations to provide pension benefits and other post-retirement benefits to its employees, supplementary combining financial statements, and certain required supplementary information regarding the schedule of expenditures of federal awards.

Component Units

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

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

(Continued)

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 expanded its use to include operation of the Board's Humanitarian Fund, wellness activities, and various other employee benefits such as an expanded sick leave benefit. During fiscal year 2016, the Board transitioned from a self-insured health insurance program to the Commonwealth of Virginia's The Local Choice (TLC). Members of the TLC program share significant purchasing power which reduces administrative costs, and shared claims experience offers financial protection.

Fiscal Agent Activities

The Board acts a fiscal agent for the Southwestern Virginia Board (SWVAB) and HPR III Training Consortium. As fiscal agent, the Board acts on behalf of these entities to perform various financial duties. These activities are segregated and reported in a separate column in the combining statements so that the reader can easily identify the fiscal agent activities.

The SWVAB receives funding from the State and Federal Governments to administer programs for the Region. The SWVAB received $770,780 in State Mental Health Acute Care Funds, $100,000 in Mental Health Recovery Funds and $2,336,797 in Mental Health Regional Discharge Assistance Program funds. In addition, the SWVAB received $75,000 in Federal Mental Health Block Grant Funds.

The HRP III Training Consortium is an organization which provides high quality training for the Health Planning Region III. It strives to meet the needs of behavioral health and intellectual disabilities staff serving in both public and private industries. It is the primary resource for professionals needing credits for LCSW and LPC licensure, as well as Substance Abuse Certification. In the current year, the Training Consortium generated $18,643 in registration fees for trainings.

Financial Analysis

As noted earlier, net position may serve as a useful indicator of the 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 $20,277,277. This amount of net position is a good indicator that the Board's financial position is stable. The Board's overall net position increased $2,892,631 from the prior fiscal year. This increase represents the amount of net revenue over net expenses, otherwise called the change in net position.

A large portion of the Board's net position (71%) 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 (1%) or $125,164 represents resources that are subject to external restrictions as to how they may be used. The remaining balance of $5,662,228 is unrestricted and may be used to meet the Board's ongoing obligations to its citizens and creditors.

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

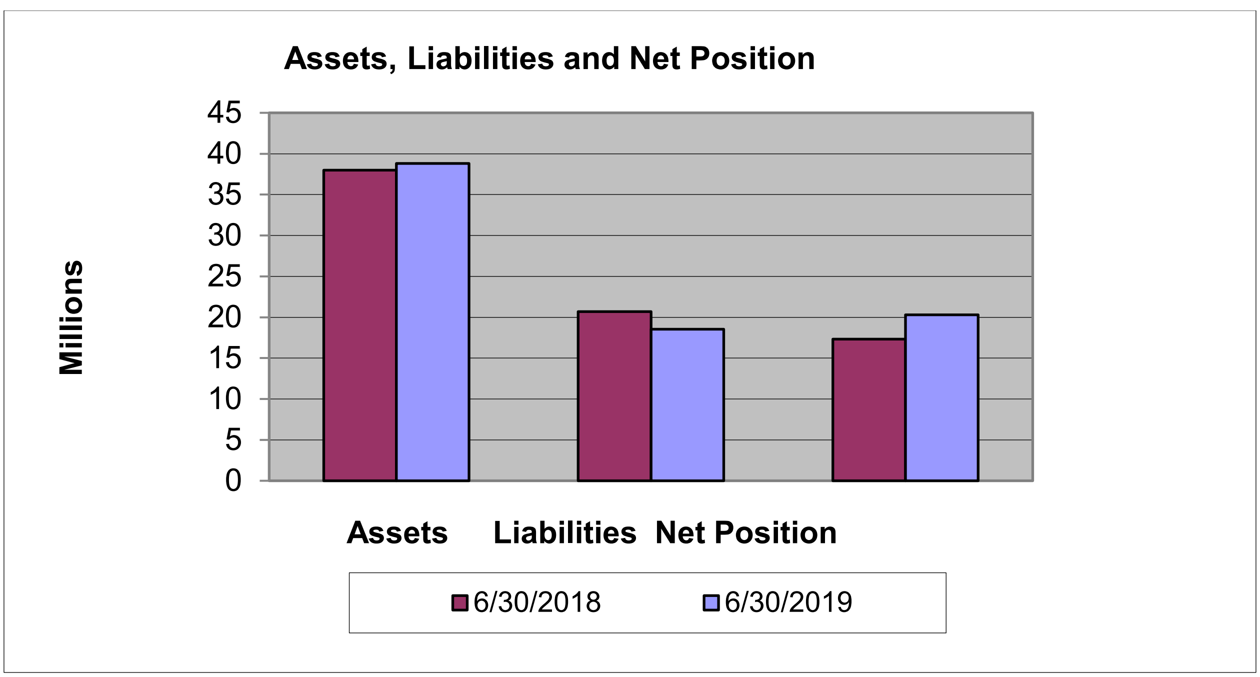
(Continued)

The following table reflects the condensed Statements of Net Position:

Summary of Statements of Net Position

	June 30, 2019	June 30, 2018
Current and other assets	$ 17,887,819	$ 19,713,830
Capital assets	18,995,578	16,307,901
Deferred outflows of resources	1,937,543	1,980,977
Total assets and deferred outflows	$ 38,820,940	$ 38,002,708
Current liabilities	$ 4,037,886	$ 4,385,173
Long-term liabilities	11,889,595	14,080,748
Deferred inflows of resources	2,616,182	2,232,673
Total liabilities and deferred inflows	18,543,663	20,698,594
Net Position		
Net investment in capital assets	14,489,885	11,085,626
Restricted	125,164	455,789
Unrestricted	5,662,228	5,762,699
Total net position	20,277,277	17,304,114
Total liabilities, deferred inflows of resources and net position	$ 38,820,940	$ 38,002,708

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



Cash and cash equivalents make up 67% of the current assets on the statement of net position. The value of unrestricted cash and cash equivalents decreased 6.3% or $789,638 over the prior fiscal year's amount. While the Board had a positive change in net position this year, the decrease in cash is primarily associated with capital project cost incurred this year. The amount of capital assets purchased this year was $3,306,018. The Board had several construction projects in progress this year. In Smyth County, the Board began construction on the Lisa H. Moore Counseling Center. This center is approximately 11,996 square foot and will house clinical services along with a contracted pharmacy site. In anticipation of the opening of a Crisis Care Center in Wytheville, the Board purchased a 4,552 square foot building and began renovations. The building will house emergency services and crisis care and is adjacent to the EW Cline property. The Board also purchased property this year to open up a residential group home called Coulson Fields. This home is 1,776 square foot and is located in the Galax area.

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

Third party receivables for billed services are due from individuals served, Medicare, Medicaid, insurance companies, and other governmental agencies. The amount owed to the Board in connection with service receivables at the end of the current fiscal year is $3,693,906 compared to the prior year's amount of $5,146,601. The allowance for doubtful accounts increased from $1,071,857 at the end of fiscal year 2018 to $1,136,797 in fiscal year 2019. Therefore, the net service receivables decreased by $1,517,635 or 37.2%

In November 2017, the Department of Medical Assistance Services' (DMAS) implementation of Managed Care went into effect for our region of the state. The Board transitioned from one behavioral health administrator to six managed care entities. At the time of the transition the process was plagued with problems. The Managed Care Organizations (MCO) were late with payments and in some cases more than six months went by without a single payment from an MCO. The authorizations were not processed by the MCOs within the required timeframes and some MCOs could not be billed electronically due to set-up issues within their systems. This meant the Board had to send paper claims, which took longer to process. Because of these problems, the Board's accounts receivable from MCOs grew to an amount of $4,085,141. While much of the billed amounts were received, they were received after the fiscal year end. While the system was still flawed in the 2019 year, payments from MCOs were more timely. Receivables from the MCOs totaled $2,916,958 at the year end. This balance is more consistent with the monthly balances due from MCOs. MCOs continue to pay at lower rates than the standard rate and are slow to approve authorizations.

The contract sales receivable balance reflected an increase of $302,921, from $994,079 at the end of fiscal year 2018 to $1,297,000 in fiscal year 2019. The allowance for doubtful accounts was $52,028 in fiscal year 2018 compared to $23,404 in fiscal year 2019. The allowance for doubtful accounts remains low for contract sales receivables because the Industrial Developmental Centers (IDC) are very diligent in their collection process to ensure amounts are collected. The receivable balance increased at the end of fiscal year 2019 due to an increase in the sales volume during the fiscal year 2019 year. IDC production sales increased by 60.96% over sales from the prior fiscal year. The largest contractor for the IDCs is the United States Department of Defense and consequently one of the largest accounts receivable balances is maintained by them.

Board inventories relate to IDC programs and technology inventory. Inventories related to the IDC programs involve contracts with government and corporate customers, which provide opportunities for the individuals we serve to have employment. The IDC purchases raw materials in anticipation of these contracts. The Board had some of these materials on hand at the end of both fiscal year 2018 and fiscal year 2019, reflected as inventory on the balance sheet. This inventory varies relative to the customer orders that the IDC has at any given time. Inventory increased by $343,876, from $836,318 at the end of fiscal year 2018 to $1,180,194 in fiscal year 2019. Inventory increased to meet the demands of contracts the IDC programs will fill in fiscal year 2020.

Technology inventory consists of items kept on hand to distribute to new or existing staff to complete their job tasks. Inventory items include computers, printers, cables, keyboards and various other items. Technology inventory increased $5,419 over the prior year, from $9,709 in fiscal year 2018 to $15,128 in fiscal year 2019.

Prepaid and other receivables combined increased by $133,659 from last fiscal year. There were three main factors for the change in this account:

- Prepaid expenses increased by an amount of $27,262. Prepaid expenses are defined as future expenses paid in advance. The prepaid expense increase is primarily in the amount the Board paid for health insurance premiums. This prepayment for insurance premiums increased from $519,973 in the prior year to $531,066 in the current year. The increase in health insurance premiums is a result of the Board's workforce expansion and increases in the rates charged by our provider.
- In the current year, it was discovered an error had been made in the calculation process for the Board's long-term disability insurance premiums. This error resulted in an overpayment of premiums in the amount of $80,532. The overpayment was unreceived at the end of the current year and reflected in the other receivables total.
- Other receivables included amounts due from the Virginia Foundation for Healthy Youth (VFHY). The VFHY empowers Virginia's youth to make healthy choices by reducing and preventing youth tobacco use, substance use and childhood obesity. The amount due from this grantor in fiscal year 2019 was $44,116 as compared to zero in fiscal year 2018.

During fiscal year 2016, the Board sold a piece of equipment to a previous IDC customer. The Board agreed to finance this sale of equipment. The total sales price of the equipment was $45,000, and the note taken was dated January 13, 2016. The terms are as follows: a payment of $5,000 to be made by January 22, 2016, with the remaining balance paid in quarterly installments of $2,500 beginning April 1, 2016, with the final payment to be made January 1, 2020. The note is an interest free note and is secured by the equipment. The balance of this note receivable was $15,000 at the end of June 30, 2018 and $5,000 at the end of June 30, 2019.

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 some of the Board's outstanding debt. Restricted cash in the amount of $60,588 is required by a note with Rural Development, which stipulates one years' worth of principal and interest payments be set aside and restricted. During the current year, the bond issuance with the Industrial Development Authority of the County of Stafford and the City of Staunton, Virginia was refinanced with a note from Signature Public Funding Corporation (SPFC). SPFC requires a principal payment in February of each year and interest payments twice a year in February and August. An amount of $64,576 has been set aside to meet the interest payment required in August 2019.

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 109 individuals in this capacity.

Accounts payable decreased by $70,882 or 4% from $1,644,681 in fiscal year 2018 to $1,573,799 in fiscal year 2019. Accounts payable represents the Board's obligation to pay off a debt to its vendors for purchases of goods or services on credit. This account varies depending on the timing of the payments to vendors but is considered a short-term debt. The accounts payable balance at the end of fiscal year 2018 included several large payments due on construction projects. Total accounts payable for construction in process at the end of fiscal year 2018 was $657,488. The Rhea B. Lawrence building had just been completed at the end of fiscal year 2018 but still had balances owed for construction services of $203,543. This project was completed during fiscal year 2019 and all balances owed were paid at year end. In fiscal year 2018, the Grayson Youth Project was finishing construction and a balance was owed on construction costs of $99,485. This project was completed in fiscal year 2019 and all balances had been paid. The Lisa H Moore clinic had started construction at the end of the fiscal year 2018 year and was still underway at the end of fiscal year 2019. The clinic had balances owed for construction services of $133,630 at the end of fiscal year 2019 versus $354,460 owed at the end of fiscal year 2018. Construction was just beginning on the Wythe Crisis Clinic at the end of fiscal year 2019 and balances were owed on construction costs of $103,605. Total changes in accounts payable for construction in progress was a decrease of $420,253. At the end of fiscal year 2019, the Board owed $95,752 on their credit card as compared to a zero balance at the end of the fiscal year 2018. The Board has a purchasing card program to assist staff with a method to purchase small products and supplies within our existing purchasing system. The last item having an effect on the change in accounts payable was supplies the IDC purchases to use in the manufacturing process. The accounts payable for IDC supplies increased from $180,768 at the end of fiscal year 2018 to $472,630.97 at the end of fiscal year 2019.

Compensated absences increased this year by $62,189, which is a 3% increase. As the Board employs more staff, the compensated absences balance most likely will grow larger, depending on when staff elect to use their annual leave. Board policy limits the amount of annual leave an employee can accrue. Each year on January 15, the annual leave resets to this maximum amount for those employees who have accumulated more than the maximum. The maximum amounts are based upon each employee's length of service.

Unearned revenues decreased $372,849, or 19% from 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. Amounts in programs vary from year to year as well as the types of programs.

(Continued)

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

Program	2019	2018
Family Initiative Funds	$ 135,981	$ 136,379
Local Inpatient Purchase of Service (LIPOS)	267,468	258,498
Discharge Assistance Program (DAP)	53,164	585,383
Regional Alternative Transportation	7,000	-
HPRIII Funds	11,550	23,082
Early Impact Virginia Funds	2,530	2,530
MH Pharmacy and Medication Supports	-	144,034
Regional Liaison	84,555	43,768
SA Prevention Funds	65,000	-
DBHDS Craft Training Funds	150,000	-
SOR Funding	415,699	-
Jail Diversion	82,230	-
Project Link	10,642	-
Step VA Funding	9,183	-
CCBHC	47,157	307
CIT Training Grant	45,976	-
Other Regional Programs	5,607	25,188
OPT-R Treatment and Recovery	180,994	197,658
Federal Y-SA Funds	-	114,674
MH CIT Assessment Sites	-	298
Quail Run Group Home	-	400,000
Permanent Supportive Housing	15,204	23,162
	$ 1,589,940	$ 1,954,961

Other items included in deferred revenue monies are for the Wounded Warrior program and prepaid insurance and client fees for services received.

The Board's net position increased by $2,973,163 or 17% during fiscal year 2019. This increase included a positive change in net position of $2,892,631 which is reflected on the Statement of Revenues, Expenses and Changes in Net Position. A restatement was made to the beginning of the fiscal year 2019 net position for $80,532 for overpayment of long-term disability insurance premiums in the previous year.

The following table reflects the condensed revenues and expenses of the Board for fiscal year 2019 and fiscal year 2018:

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

	Year Ended June 30, 2019	Year Ended June 30, 2018	Increase (Decrease)
Revenues:			
Operating revenues:			
Fees	$ 35,382,709	$ 34,818,360	1.62%
Contract sales	9,864,395	6,128,612	60.96
Contributions/other local	35,646	12,565	183.69
Miscellaneous	557,508	454,324	22.71
Housing payments	10,516	11,891	(11.56)
Non-operating revenue:			
State funding	12,770,705	12,932,262	0.75
Federal funding	1,624,875	1,223,117	11.62
Local governments	550,340	547,248	0.57
Interest income	149,148	101,876	46.40
Gain on disposal of assets	(129,611)	49,944	(359.51)
Total Revenues	60,816,231	56,280,199	8.06
Expenses:			
Operating Expenses			
Personnel	31,445,529	29,803,381	5.51
Staff Development	165,414	182,976	(9.60)
Facilities	1,937,421	1,706,012	13.56
Equipment/Supplies	5,387,273	3,276,779	64.41
Travel	845,726	858,999	(1.55)
Contract Services	16,149,549	15,870,864	1.51
Miscellaneous	435,571	480,368	(1.55)
Depreciation	1,318,036	1,208,780	9.04
Non-operating Expenses			
Interest Expense	239,081	320,856	(25.49)
Total Expenses	57,923,600	53,709,015	7.83
Change in Net Position	$ 2,892,631	$ 2,571,184	12.85%

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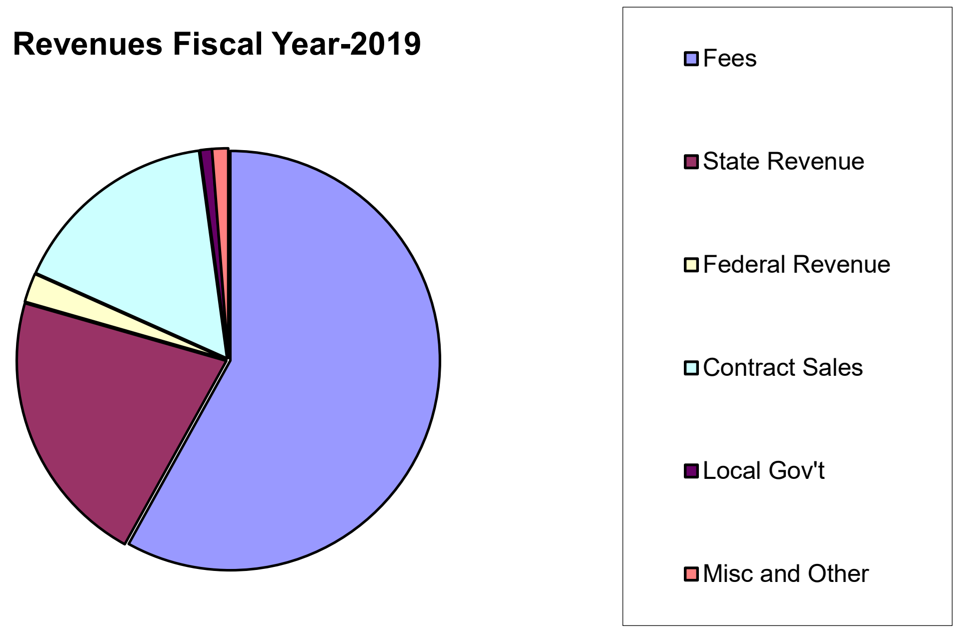
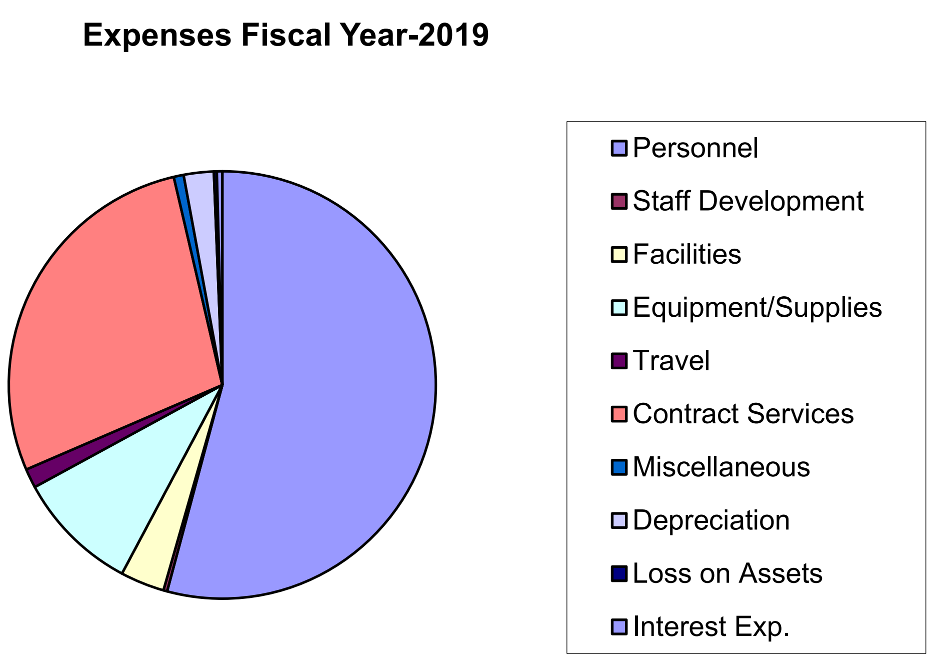

Revenues Fiscal Year-2019
Fees
State Revenue
Federal Revenue
Contract Sales
Local Gov't
Misc and Other


Expenses Fiscal Year-2019
Personnel
Staff Development
Facilities
Equipment/Supplies
Travel
Contract Services
Miscellaneous
Depreciation
Loss on Assets
Interest Exp.

(Continued)

The fiscal year 2019 reflects growth in fees for service revenues. The sources of fee revenues include fees for services to individuals, whether direct billing to individuals receiving services, Medicaid, Medicare or other private and governmental insurance companies. Fees also include revenues for services provided to other local agencies on a contractual basis. Fee revenues reflect an increase of 1.62%, or $564,349 compared to fiscal year 2018. 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 and following up with third parties for services rendered.

In the current year, the Board purchased a 1,776 square foot house to open a residential group home known as Coulson Fields. This home was purchased in September 2018 and required renovations before becoming operational. This group home housed one individual and generated $65,386 in Medicaid fees. The Board also had a group home known as Asana Creek which housed one individual. This home was operational in fiscal year 2018 but generated $126,798 more fees in fiscal year 2019.

During fiscal year 2019, the Board increased its focus on providing case management services. The Board added case managers to help minimize waiting lists and individuals served by each case manager. Case management is the collaborative process of assessment, planning, facilitation, care coordination, evaluation and advocacy for options and services to meet an individual's and family's comprehensive health needs through communication and available resources to promote safety, quality of care and cost-effective outcomes. Case management revenue for adult and youth services increased by $734,910 or 11%, from $6,503,279 in fiscal year 2018 to $7,238,189 in fiscal year 2019.

The State of Virginia, in an effort to reform the State Behavioral Health System, designed the System Transformation Excellence and Performance (STEP-VA) plan, an initiative for individuals with behavioral health disorders featuring a uniform set of required services, consistent quality measures, and improved oversight in all Virginia communities. STEP-VA is based on a national best practice model that requires the development of a set of chosen services that make up a comprehensive, accessible system for those with serious behavioral health disorders. In accordance with the timeline, the Board developed primary care screening and monitoring. This program is designed to help identify individuals who are at risk of physical health issues and will help them obtain preventative and primary care. Primary care screening and monitoring includes checking blood pressure, body mass index, temperature and blood sugar.

The Board also developed several other new programs. In the Smyth and Wythe County areas, the Board began to offer psychosocial rehabilitation services. This is a service designed to provide skill building, peer support and other supports and services to help adults with serious and persistent mental illness reduce symptoms, achieve optimal levels of community membership, increase satisfaction with their living environment, and restore and/or enhance their personal, social, and vocational capabilities. In connection with the opening of the psychosocial rehabilitation services, ambulatory crisis stabilization programs were opened. This program works with individuals to stabilize their acute mental health needs at the earliest possible time to avoid the risk of hospitalization.

In fiscal year 2019, contract sales revenues increased by $3,735,783, or 60.96%, as compared to fiscal year 2018. The Industrial and Developmental Centers (IDCs) hold government and corporate contracts, of which the largest contractor is the United States Department of Defense (DOD). Changes to DOD contracts account for the largest portion of the fluctuation in sales volume. The increase in sales largely reflected:

- New DOD contracts for the Advanced Combat Shirt (ACS),
- Considerable increase in contracts for the production of helmet covers,
- A contract with the U.S. Forestry Service for a new product - the Field Pack, and
- A subcontract with National Industries for the Blind for an Enhanced Combat Helmet cover.

Staff of the IDCs remain in contact with SourceAmerica to maintain an awareness of current and future federal government projects.

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The IDCs continue to provide services to various manufacturers and businesses in our service region. Major customers include Blue Ridge Beverage (Gatorade), ABB, Somic America, Vaughan-Bassett Furniture Company, and Royal Mouldings. The IDCs also continue to produce screen printed products including T-shirts and tote bags. One large ongoing contract with the Department of Behavioral Health and Developmental Services is the Revive Bag, which is a small canvas screen-printed bag that is used by emergency personnel for Naloxone, a prescription medication that reverses an opioid overdose. Another new commercial contract that started during fiscal year 2019 was TechLab, Inc. from Radford.

Contributions and other local funding grew from $12,565 in fiscal year 18 to $35,646 in fiscal year 19, an increase of $23,081. Mount Rogers Community Services created the position of Director of Fundraising who develops fundraising strategies, formulates solicitation procedures, organizes events, develops donors and writes grants. This position was filled in July 2018 and has been successful. The revenue item of contributions did not see a large increase because many of the monies awarded were considered state or federal revenue. Amounts reflected as new contributions totaled $5,400 of which $3,000 was from the C.E. Richardson Benevolent Foundation to purchase developmental toys for substance exposed infants. Starting in fiscal year 19, the Board began to reflect in-kind contributions and expenses in their financial statements where in the past these contributions were not tracked and recorded. In-kind contributions recorded this year totaled $18,608. These were for activities sponsored by the Industrial Development Centers and reductions in rental rates for meeting space.

Housing assistance payments reflected on the financial statements were in connection with a Housing Assistance Payments Contract the Board has with the United States Department of Housing and Urban Development (HUD). This contract provides assistance to Section 8 tenant-based housing by offering subsidies to the project. The subsidies help qualified individuals gap the difference between the rental amount charged by the renter and the contribution that the individual can afford.

Miscellaneous income increased from last year by $103,184 or 22.71%, from $454,324 in fiscal year 2018 to $557,508 in fiscal year 2019. This increase was primarily caused by two major factors. In April 2018, Mount Rogers Community Services entered into an agreement with Emory & Henry College (College). The Board would provide clinical training opportunities for students enrolled in the Master of Physician Assistant Program at a cost of $1,200 per student. This agreement provided $22,800 for the Board in fiscal year 2019. During the fiscal year 2019 DBHDS, in an effort to help Community Services Boards with challenges of service delivery and payment created by health reform, partnered with MTM Services to bring the SPQM Services Suite. SPQM or Service Process Quality Management is a powerful analytical tool that arms decision-makers with the essential information to strategize for the future, effectively manage operations, develop continual improvement strategies and demonstrate outcomes. SPQM reports offer a view of how your clinics and programs are performing and allow instant drilldown capability for troubleshooting, problem-solving and operational analysis. DBHDS agreed to fund two years' worth of cost of the SPQM software so Community Services Boards could decide if it was useful. The two-year cost of $59,400 was paid up front from DBHDS in fiscal year 2019.

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). Also for the HPR 3 region, the Board serves as the fiscal agent for a regional Community Crisis and Psychiatric Services grant. This grant helps to address the gap in psychiatric availability for youth, funding crisis intervention and stabilization services for youth. Such services include contracted telepsychiatry services, as well as center-based and ambulatory crisis stabilization programs.

State revenue increased by $98,058 or .7% in the current fiscal year. While there was an increase, the general state funds of the Board were reduced in fiscal year 2019 due to Medicaid expansion in Virginia. Medicaid expansion in the state of Virginia became effective January 1, 2019. The expanded Medicaid allowed individuals with incomes up to 138% of the federal poverty level to qualify for Medicaid. Since the federal funds required a state match, DBHDS reduced the Board's general state funds by an amount of $413,358. This reduction in state funds was to be replaced by new Medicaid revenue. Other differences are attributable to new funding in the fiscal year 2019 and the timing of when the Board fulfills its obligation and revenue is recorded on the books. New funding was unspent at the end of the fiscal year and was shown as unearned revenue in the liability section of the balance sheet.

During the current fiscal year, the Board received several new sources of money for new services or to expand existing services. Following is a listing of these new funds:

- The Board was awarded $146,125 in jail diversion funds. This program was created to promote the diversion of persons with mental illness from unnecessary involvement in the criminal justice system. These funds will be used to identify individuals diagnosed with serious mental illnesses and co-occurring disorders, divert them away from the criminal justice system and connect them to services and treatment as early as possible.
- In connection with the continued implementation of STEP-VA, Mount Rogers Community Services received $190,881 to implement primary care screenings and monitoring. Primary care screenings and monitoring are a critical element of STEP-VA because individuals with serious mental illnesses are known to be at higher risk for poor physical health outcomes largely due to unidentified chronic conditions.
- In an effort to support the continued growth of Crisis Intervention Teams (CIT) programs, the Board was awarded $45,976 to support the training component of our local CIT program. These funds will allow compensation to cover critical positions enabling attendees and trainers from law enforcement and mental health to train and/or participate in CIT core training.
- The Board received several customized rate amounts throughout the year for care of individuals with an Intellectual Disability for help in facilitating supports. These extra funds help to support additional staff costs and services provided to these individuals.

Federal revenue increased by $401,758 or 32.85% over the last year, from $1,223,117 in fiscal year 2018 to $1,624,875 in fiscal year 2019. The majority of the increase in federal funds is due to the realized revenue from the new PPW-LINKS project funding this year. While the amounts received in new funding are shown below, a portion of these funds were unearned at the end of the fiscal year and are reflected as a liability on the balance sheet.

Below is a list of new federal money received in this fiscal year:

- The Board received $100,000 from the Department of Behavioral Health and Developmental Services to coordinate the LINK program in the region. Project LINK provides intensive case management and home visiting services to pregnant and parenting women who are at risk or currently abusing substances.
- The Board was awarded $85,000 in Virginia SOR Funds for prevention. This money will be used to build upon strategies identified by the Partnership for Success Evidence Based Work Group to address opioid misuse.
- Mount Rogers Community Services was awarded $533,500 for treatment expansion and the PPW-LINKS project. These funds will be used for the Medication-Assisted Treatment (MAT) program and to support peer staffing. Medication assisted treatment combines behavioral therapy and medications to treat substance use disorders.

Personnel expenses reflect an increase of $1,642,148 or 5.51% in fiscal year 2019 as compared to fiscal year 2018. An increase of $657,904 in restricted personnel costs contributed to this increase. Restricted personnel costs were

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$487,531 in fiscal year 2018 versus $1,145,435 in fiscal year 2019. New programs launched in fiscal year 2019 that had a significant impact on the increase in wages in restricted personnel costs included:

- Jail Diversion – Personnel expense in fiscal year 2019 of $51,267
- Project LINK – Personnel expense in fiscal year 2019 of $45,927
- Coulson Fields Residential Group Home – Personnel expense in fiscal year 2019 of $228,174

Another item that had a significant impact on the increase in wages in fiscal year 2019 was the increased production output of the IDCs, which had a direct impact to the increase in the revenue from contract sales discussed above. The increase in production caused an increase in the wages paid to produce products to fill contracts. The increase in production wages over the prior year totaled $1,006,516.

Staff development expenses decreased from the prior year by $17,562 or 9.6%. Staff development involves training expenses associated with the Board's employees, dues and memberships of the Board and employees and subscriptions of the Board. In fiscal year 2018, the Board had a tuition assistance program to benefit staff which would reimburse employees 25% of the costs associated with continuing education for tuition expense. The Board incurred costs of approximately $35,000 for tuition reimbursements in fiscal year 2018. In fiscal year 2019, the Board discontinued this blanket tuition reimbursement policy and only allowed tuition reimbursement going forward under very limited circumstances requiring specific approval by the Executive Director. This change in policy resulted in lowered tuition reimbursement costs for fiscal year 2019 of $8,316.

In fiscal year 2018, a new requirement came about for qualified mental health professionals (QMHP) to register with the Commonwealth of Virginia, Department of Health Professions, Board of Counseling. A QMHP is someone who is trained and experienced in providing mental health services to people who have a mental illness. To assist staff in registering, the Board agreed to pay the first-year registration fee of all staff who met the criteria for QMHP. Costs associated with the Board's payment of the QMHP registration fee decreased $3,325 from $6,475 in fiscal year 2018 to $3,150 in fiscal year 2019. The tuition reimbursement and QMHP registration fee cost savings in staff development in fiscal year 2019 were partially offset by the launch of a new training program called Safety Care. Safety Care was a more intensive training program encompassing more staff and two levels of training, basic and advanced. This new training program resulted in an additional $16,800 costs in administrative staff development. The tuition reimbursement and QMHP registration fee cost savings in staff development were also offset by the expansion of the restricted Substance Abuse Prevention Services program. Staff development costs in Substance Abuse Prevention Services increased $14,991, from $3,654 in fiscal year 2018 to $18,645 in fiscal year 2019.

Facilities expenses increased by $231,409, or 13.56%, from $1,706,012 in fiscal year 2018 to $1,937,421 in fiscal year 2019. Facility expenses are comprised of the following: rent, utilities, telephone, facility maintenance, and facility insurance. In fiscal year 2018, the Board expanded the residential living program by opening three new residential living facilities in the current year, which we rented. The associated rental costs for these facilities increased $26,180, as fiscal year 2019 was the first full year of rental costs for the properties. A small decrease in rental expense of $2,832 associated with the Asana Creek facility was realized after this facility was closed towards the end of fiscal year 2019. The Board consolidated Compliance and Quality Assurance staff into one location and relocated the personnel to a new office space leased in Wytheville in January 2018. This consolidation incurred $12,000 in additional rental expense. Various repairs and maintenance that were not subject to capitalization were made to an existing leased property to revamp the facility for use as the Friendship House, which includes mental health supports, psychosocial services and ambulatory crisis services. These repairs and maintenance costs totaled $42,909. Another item which caused an increase in the facility expense category is the Permanent Supported Housing Program (PSH). The PSH program combines low affordable housing, health care, and supportive services to help individual lead more stable lives. Facility costs include the rental assistance paid by the Board to help these individual's rent be more affordable. State revenue is received by the Board to cover the cost of this expense. This program continued to expand in fiscal year 2019 and associated rental costs increased $48,220 in fiscal year 2019. In addition, the majority of the remaining facility expenses increase was due to the associated direct increase in facility costs including utilities, telephone, and insurance related to opening new locations and expansion of current programs.

Equipment and supplies expense increased by $2,110,494 or 64.41%, from $3,276,779 in fiscal year 2018 to $5,387,273 in fiscal year 2019. Items in this category are small equipment, maintenance and service contracts,

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office supplies, facility supplies, educational and recreation supplies, food expense, medical supplies and contract supplies. The majority of the fiscal year 2019 increase is attributable to contract supplies, which is the cost of items used in the manufacturing process at the IDCs. This line item increased by $2,021,334 resulting from the increased production for governmental contracts.

Travel expenses decreased this year by $13,273 from $858,999 in fiscal year 2018 to $845,726 in fiscal year 2019. Travel expense includes items such as private mileage paid to employees, operating expenses for the Board' fleet, automobile insurance and employee food and lodging. Private mileage increased slightly this year by $12,642 from the prior year. Private mileage is paid to employees for use of a personal vehicle on business. The Board authorizes payment at a rate of $.50 per mile to help offset vehicle operating expenses, including gasoline, automobile liability insurance and repairs. At the end of fiscal year 2018 and fiscal year-2019, the Board continued to modernize its automobile fleet by purchasing vehicles. The Board purchased thirty-one (31) vehicles in fiscal year-2018 which had a direct effect on the operation costs of the Board's fleet, by reducing the fuel and repair costs. This cost savings realized from replacing aging vehicles more than offset the slight increase in private mileage. Vehicle operating expenses decreased $19,143 from fiscal year 2018.

Contract services increased this year by $240,370 over last year. Contract services are comprised of accounting and auditing expenses, data processing costs, legal services, psychiatric and psychological contract expenses and program contractual services. Legal services increased this year. Legal fees of $25,647 were incurred with the refunding of the bond issuance with the IDA of the County of Stafford and the City of Staunton. During fiscal year 2019, financial statement auditing services went out for bid and a new auditing firm was procured. Auditing expense increased by $14,361. Data processing increased by $11,287 because of increased costs associated with the contractual vendor, allowing for expansion of MCOs on the electronic remittance and payment platform. Mount Rogers Community Services incurred additional costs in fiscal year 2019 for insurance premiums. The increased cost of health care is a topic of concern as the costs continues to increase every year and affect employers and employees alike. The Board works diligently to keep premiums affordable for employees.

Miscellaneous expense decreased by $6,842, going from $442,413 in fiscal year 2018 to $435,571 in fiscal year 2019. Miscellaneous expense is comprised of staff liability insurance, postage, printing, advertising, client and family support and any other expense that cannot be classified in one of the other expense categories. Employment advertising expense decreased in fiscal year 2019 over the prior year. In fiscal year 2018 the Board had an employment search conducted for a key position. Part of this cost savings was offset by an increase in client family support expense. The Board received the Emory and Henry grant in fiscal year 2019, which designated a portion of the grant revenues was to be used to support increased client and family services.

Depreciation expense increased by $109,256, from $1,208,780 in the prior year to $1,318,036 in the current year. Depreciation is calculated on capital assets. A capital asset is an asset held with the intention of being used for the purpose of producing or providing goods or services in the normal course of business. Depreciation is an accounting method of allocating the cost of a fixed asset over its estimated useful life. The Board capitalizes and depreciates all capital assets with a value of $5,000 or greater. The Board uses estimated useful lives for capital assets ranging from three to forty years. Depreciation expense increased as a result of significant capital purchases over the past two fiscal years for transportation equipment, real estate and building renovations.

Interest expense decreased by $81,775 in fiscal year 2019, as compared to fiscal year 2018. Interest expense savings, associated with the Carroll House property VHDA loan pay off in fiscal year 2018, was $10,148. Interest expense associated with the loan the Board holds with First Bank & Trust continues to decrease. fiscal year 2019 interest on this loan was $31,000 versus $48,236 in fiscal year 2018. Interest expense also decreased by $58,000, due to refinancing of the bonds with Industrial Development Authority of the County of Stafford and the City of Staunton.

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.

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Overall, unrestricted cash decreased this year by $789,638. The board generated $3,850,842 in net cash from its operating and noncapital financing activities aggregated for fiscal year 2019. Receipts from individuals served and IDC customers generated $53,998,345, while receipts from state, federal and local governments were $14,573,071. Cash outflows to employees and for employee benefits totaled $45,728,125, and payments for goods and services totaled $18,992,449.

The net cash used by capital and related financing activities netted $4,790,636. During the current fiscal year, loan reductions included debt payments on long-term debt to Rural Development, IDA of the County of Stafford and the City of Staunton, First Bank and Trust and the Signature Public Funding Corporation, all totaling $716,582. Capital activities also included purchases of capital assets of $4,138,199. Other items included in capital and financing activities include proceeds from the sale of assets of $2,875, the receipt of principal payments of $10,000 on notes receivable, payments from reserve accounts in excess of contributions to reserve accounts of $330,625. Interest expense paid out this year was $279,355.

Net cash provided by investing activities was $150,156, representing interest income.

Capital Assets

The Board's capital assets net of accumulated depreciation totaled $18,995,578 on June 30, 2019. This amount represented a net increase of $2,687,677 from the previous fiscal year end. Depreciation expense totaled $1,318,036 for the current fiscal year. During this fiscal year, the Board purchased a total of $4,138,199 in capital assets. These capital expenditures included the remodeling and constructing of facilities for $3,123,797, the purchase of vehicles for $753,764 and purchase of equipment and furniture for $260,638.

During the current year, the Board continued the Youth Grayson County project in Independence to renovate the existing 2,100 square foot building and expand to add an additional 3,300 square feet. The building was completed in August 2018 at a total cost of $1,066,970. In Smyth County, the Board began construction of the Lisa H. Moore Counseling Center. This center will have approximately 11,996 square feet and will house clinical services along with a contracted pharmacy. The building is scheduled to be completed in August 2019. The total construction costs year-to-date are $2,810,662. In anticipation of the opening of a Crisis Care Center in Wytheville, the Board purchased a 4,552 square foot building and began renovations. The building will house emergency services and crisis care and is adjacent to the EW Cline property. Costs incurred to date on this project are $683,609. The Board also purchased property this year to open up a residential group home called Coulson Fields. This home is 1,776 square foot and is located in the Galax area. Mount Rogers Community Services received an amount of $400,000 from DBHDS to purchase the home and provide start-up costs.

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The following table reflects the comparison of Capital Asset components as of June 30, 2019, and June 30, 2018:

Description	Fiscal Year 2019	Fiscal Year 2018
Land	$ 744,011	$ 744,011
Building and Land Improvements	20,031,331	19,338,065
Equipment and Vehicles	6,410,741	5,474,304
Construction in Progress	3,533,658	1,637,948
Total	30,719,741	27,194,328
Accumulated Depreciation	(11,724,163)	(10,886,427)
Net Property and Equipment	$ 18,995,578	$ 16,307,901

Long-term debt

During the current fiscal year, the Board continued to retire current debt by making payments based upon the terms of the loan agreement, with the exception of one debt. The bond issuance with the Industrial Development Authority of the County of Stafford and the City of Staunton was refunded this year. The Board entered into an agreement with Signature Public Funding Corporation for a loan to retire the outstanding principal balance of the Mount Rogers Community Services, Series 2008A Lease revenue Bonds. The financing amount of the new loan, dated December 13, 2018, was $3,228,600, 4% interest with yearly principal reductions and semi-annual interest payments. The loan will mature February 2033. By refinancing the bond, the Board saved over $670,000.

Principal payments of $191,200 were paid on the Board's bond issuance with the IDA of the County of Stafford and the City of Staunton, $21,265 was paid on the mortgage loan with Rural Development, $90,400 was paid on the secured note with Signature Public Funding Corporation, and $413,715 was paid on the First Bank and Trust Note Payable. Board long-term indebtedness at June 30, 2019 was $4,505,693, including the current portion due during fiscal year 2020, of $626,770. All debt is secured by real estate, except for the First Bank and Trust Note Payable, which is an unsecured note. While unsecured, this loan was used to construct the Rhea B. Lawrence Recovery Center, a crisis stabilization unit providing eight beds for short-term sub-acute services for adult consumers.

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Budgetary Highlights

The following table reflects the budget to actual comparison for fiscal year 2019:
(Component units are omitted from this table.)

	Initial Budget	Revised Budget	Actual
Revenues:			
Fees	$ 39,777,325	$ 36,872,068	$ 36,290,510
State funding	11,659,278	12,088,758	11,907,214
Federal funding	1,148,488	1,285,196	2,188,388
Contract sales	7,124,280	8,792,622	9,835,715
Local governments	547,248	547,248	550,340
Contributions/other local	322,931	189,832	180,617
Miscellaneous	181,066	230,893	391,150
Prior year re-grant	70,000	1,903,854	1,888,779
Total revenues	$ 60,830,616	$ 61,910,471	63,232,713
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			(2,286,871)
Total GAAP Revenue per the Statement of Revenues, Expenses, and Changes in Fund Net Position			$ 60,945,842
Expenses:			
Personnel	$ 42,785,578	$ 41,869,156	$ 39,360,049
Staff development	137,900	123,365	152,067
Facilities	2,806,286	3,017,001	3,062,830
Equipment/supplies	3,892,275	5,090,847	6,520,177
Travel	969,956	845,354	833,023
Contract services	9,646,278	10,430,543	9,575,574
Miscellaneous	424,033	345,515	393,306
Total expenses	$ 60,662,306	$ 61,721,781	59,897,026
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			(1,843,815)
Total GAAP Expenses per the Statement of Revenues, Expenses, and Changes in Fund Net Position			$ 58,053,211

Both revenue and expense budgets were revised mid-year to reflect changes in anticipated program revenue and expense. The Board does not budget for non-operating expenses, such as depreciation expense, nor does the Board budget for interest income and interest expense. The budget is prepared on the cash basis of accounting.

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Economic Outlook

Fiscal year 2019 reflects the Agency's sixth consecutive year of strong financial performance, after having had two significant deficit years in fiscal years 2012 and 2013. The Agency's change in net position increased during fiscal year 2019 by $2.9 million, as compared to fiscal year 2018's positive change in net position of $2.6 million. Even with the stronger financial performance in fiscal year 2019, the Agency must remain diligent in looking ahead to fiscal year 2020. The Agency 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 Agency services.

These budget enhancement strategies are important in light of various funding uncertainties surrounding the current behavioral health industry and health care in general, and they are critical to maintaining the vitality and flexibility of the Agency. Those funding and economic factors and Agency initiatives that are most critical include:

- Medicaid expansion and related state general fund reductions
- DBHDS focus on facility census reduction
- Increased focus by DBHDS on regional project funding, programming, and collaboration
- Behavioral health redesign
- Federal opioid crisis funding
- Supportive housing
- Medicaid customized rates
- Continuing pressures of managed care (Commonwealth Coordinated Care Plus and Medallion 4.0)
- Future possibility of value-based payment (VBP) structures
- Workforce challenges
- Addiction and Recovery Treatment Services (ARTS)
- System Transformation, Excellence and Performance in Virginia (STEP-VA) standardized services model across Virginia CSBs
- Department of Justice (DOJ) settlement agreement
- Agency program strategic analysis
- Industrial and Developmental Centers (IDCs)
- Agency facilities projects

Medicaid Expansion and Related State General Fund Reductions

One of Virginia Governor Ralph Northam's goals noted during his 2017 campaign for governor was Medicaid expansion in Virginia. In 2018, the Virginia legislature, in fact, approved Medicaid expansion, to be effective January 1, 2019. Expanded Medicaid allows people with incomes up to 138% of the federal poverty level to qualify for Medicaid. The federal government is paying a significant portion of the cost of this expanded coverage; however, states still are contributing a portion as well.

In order to identify funds for the state match (projected at $11.1 million for fiscal year 2019 and $25.0 million annualized for fiscal year 2020 and beyond), the Department of Behavioral Health and Developmental Services (DBHDS) announced reductions in general fund allocations to all community services boards (CSBs) across the state. These reductions were for only a portion of the 2019 fiscal year, since Medicaid expansion was effective January 1, 2019. These reductions are for the entire fiscal year beginning in fiscal year 2020. DBHDS based the general fund reductions on an elaborate formula, taking into account anticipated additional mental health case management (MHCM) revenue for each CSB projected to be generated from: (1) individuals covered by the Governor's Access Plan (previous limited Medicaid expansion initiative), for which the full Medicaid MHCM rate will be greater than was the GAP rate; and (2) indigent/uninsured individuals for which the CSBs were providing MHCM for a minimal capped fee. The DBHDS formula then prorated the remaining general fund reduction needed for the federal Medicaid match across CSBs based on total mental health and substance use disorder revenue previously generated by CSBs as reported on their fiscal year 2017 Performance Contract Reports.

The general fund reductions for Mount Rogers Community Services are: (1) $413,358 for fiscal year 2019 (only six months of implementation and only five months of incremental MHCM revenue projected); and (2) $929,762 for fiscal year 2020 and subsequent years (full fiscal year effect). The DBHDS calculations projected that, for Mount Rogers, the "low-hanging" incremental MHCM revenue described above would total $160,798 for fiscal year 2019 and $385,916 for full fiscal years beginning in fiscal year 2020. If these amounts would materialize, Mount Rogers still would need to identify means to offset the remaining differences in general fund reduction of $252,560 for fiscal year 2019 and $543,846 for fiscal year 2020 and ongoing–presumably through services other than MHCM to previous GAP and indigent/uninsured individuals who will have Medicaid under expansion and to persons now eligible for Medicaid because of the expanded criteria.

As DBHDS implemented the general fund reduction for fiscal year 2019, CSBs expressed concern about whether Medicaid expansion would generate the incremental revenue needed to offset the reduction. DBHDS was able to work successfully during the 2019 General Assembly session to advocate for the possibility of some general fund restorations for fiscal year 2019 and possibly a reduction in the general fund reductions for fiscal year 2020 and beyond. The *2019 Virginia Acts of Assembly*, Chapter 854, Item 310, Section Y.1., provided that, based on reporting required by this Act, if the general fund reduction exceeded Medicaid expansion revenue results to CSBs by more than ten percent, the DBHDS Commissioner *may allocate up to $7 million from available special fund revenue balances to address shortfalls, on a pro rata basis*. This Act also requires reporting in quarters subsequent to fiscal year 2019 in order to allow DBHDS to take other actions to address any shortfalls and to ensure continuity of services.

Mount Rogers Community Services' Director of Finance and Administrative Services participated with a work group comprised of other CSB finance directors and finance representatives from DBHDS to develop and implement a Medicaid expansion tracking data protocol to measure incremental revenue related to Medicaid expansion. As a result of this work, DBHDS released the entire $7 million included in the Act for fiscal year 2019 to the CSBs. This amount was not finalized and released until September 2019; therefore, DBHDS provided direction that, under generally accepted accounting principles, these funds should not be included in revenue for fiscal year 2019, but rather for fiscal year 2020. Mount Rogers Community Services received $226,773 in early October in regard to the fiscal year 2019 Medicaid expansion general fund restoration. The Agency will continue to report Medicaid expansion data to DBHDS during fiscal year 2020, hoping that the 2020 General Assembly will consider at least partial restoration of general fund reductions going forward.

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DBHDS Focus on Facility Census Reduction

Virginia continues to focus heavily on reducing the census in state facilities, including the training centers, mental health hospitals, and jails. Some initiatives included in the 2018-2020 biennial state budget include:

- Funding for discharge assistance plans to reduce census at state facilities;
- Funding to expand permanent supportive housing for mentally ill individuals;
- Funding to develop assisted living facilities to increase community capacity for facility discharges; and
- Funding for community support teams to assist with community integration for individuals leaving state hospitals.

These initiatives are consistent with a budget amendment from the 2017 session of the Virginia General Assembly stating that, *it is the intent of the General Assembly that the Department of Behavioral Health and Developmental Services (DBHDS) transform its system of care into a model that embodies best practice and state-of-the art services by treating, where appropriate, individuals in the community*. The previous terminology used by DBHDS in developing an implementation plan for this community transformation for mentally ill individuals was "financial realignment of Virginia's public behavioral health system"—with the ultimate goal of reducing census in state hospitals. Projections at that time, based on recent state hospital admission increases of 58% as compared to discharge increases of only 55%, were that by fiscal year 2020 state hospital census will consistently reach 99%, with a monthly average as high as 104%. In Acting Commissioner Mira Signer's *DBHDS Weekly Message* on October 7, 2019, she notes that during the summer of 2019, DBHDS' state hospitals averaged a 96% census and at times were over 100%. After the Columbus Day weekend, DBHDS released an update noting that the Commonwealth Center for Children and Adolescents (CCCA) was over census and seven youth were on delayed status, the adult hospitals were at capacity and using overflow beds while moving into delayed status, and the geriatric hospitals were over capacity and on delayed status.

The basic rationale for the financial realignment is to reallocate funds from state hospitals, often supporting individuals no longer requiring an inpatient level of care, to community services boards, for their use in placing individuals in the community—or in state hospitals only if needed. A significant concern with such a financial realignment plan is that a significant increase in community services is required even before the state hospital funds ("savings") will be available to redirect. The initiatives funded in the 2018-2020 state budget are supporting implementation and expansion of some of the infrastructure necessary in the community to support the integration of individuals.

Mount Rogers has worked and continues to work closely with DBHDS regarding some community placements for individuals as a result of funding made available, including the funding of additional supportive housing slots and funding allocations for the placement of specific individuals with high needs. Monitoring the total cost and challenges around these placements will be important for ensuring long-term success of this community integration. Mount Rogers also is planning to develop Intermediate Care Facilities (ICFs) in the future and is considering operating fee-funded Intensive Community Treatment (ICT) teams in portions of the service region not served by the existing Program of Assertive Community Treatment (PACT) in Wythe County.

State Regional Project Funding, Programming, and Collaboration

The state continues to focus on the importance of regional collaboration, including in the allocation of System Transformation, Excellence and Performance in Virginia (STEP-VA) funding. Since Acting Commissioner Mira Signer has stepped in from her previous role as Chief Deputy Commissioner, after the untimely passing of Dr. Hughes Melton, CSBs wonder about Signer's views on Melton's recommendations around regional coordination on several administrative fronts as well.

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Regional Funding:

As for funding, Mount Rogers serves as fiscal agent for various regional funds, including family support services, consumer support services, Local Inpatient Purchase of Services (LIPOS), Discharge Assistance Planning (DAP), and alternative transportation implementation. The regional partners sharing in these funds are those in Partnership Planning Region (PPR) 3 (Southwestern Virginia), who 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, and Southwestern Virginia Mental Health Institute, along with Mount Rogers Community Services. The total amount of special purpose regional funds for which the Board serves as fiscal agent received for fiscal year 2019 and fiscal year 2018 were in the \$3-4 million range, and is expected to exceed \$4 million for fiscal year 2020. Mount Rogers also serves as fiscal agent for over \$800,000 of regional funding carried forward from previous years.

Regional Programming:

Beginning in fiscal year 2018 and ongoing, Mount Rogers receives funding to house and support a substance use disorder liaison to serve PPR 3, currently \$115,000 annually. Further, Mount Rogers receives annual funding for a youth crisis stabilization unit (CSU) (called PATH—Positive Alternatives to Hospitalization), serving youth across this same six-board region. Mount Rogers also receives regional youth mental health crisis response and child psychiatry funds. The regional partners benefitting from the related telepsychiatry funding include those in PPR 2, as well as the CSBs in PPR 6 (Danville-Pittsylvania and Piedmont) and PPR 7 (Alleghany Highlands and Blue Ridge Behavioral Healthcare). (PPRs 3, 6, and 7 comprise Health Planning Region (HPR) 3.) While Mount Rogers releases some of these child psychiatry funds directly to the other regional CSBs, Mount Rogers also is responsible for paying for telespychiatry services provided by the University of Virginia on behalf of all of these regional CSBs. For fiscal year 2019 and fiscal year 2018, the total amount of funding that Mount Rogers received (in addition to the regional fiscal agent funding described earlier) was nearly \$2 million for the regional programming offered by Mount Rogers for the youth CSU and youth crisis response and child psychiatry programs.

Regional Collaboration Administered at the State Level and Administrative Regionalization:

In 2015, DBHDS established a pilot program with Mount Rogers Community Services to provide alternative transportation for adults under a temporary detention order (TDO). The results from this pilot were very positive, in that, over the 12-month pilot period, 40 percent of individuals were transported using alternative transportation services, providing relief to law enforcement, and every individual in the pilot program was transported safely and securely. Based on the success of this pilot, Item 311.E. of the *2018 Appropriation Act* designated funds for DBHDS to provide alternative transportation for adults and children under a temporary detention order. DBHDS plans to implement alternative transportation statewide over the next two years on a regional basis, beginning the implementation on October 7, 2019, in HPR 3 (Mount Rogers, Cumberland Mountain, Dickenson County, Highlands, New River Valley, Planning District 1, Danville-Pittsylvania, Piedmont, Alleghany Highlands, and Blue Ridge).

As DBHDS supports the implementation of STEP-VA across the state, various regional efforts are integral to these efforts. For example, CSBs have worked together to develop regional training plans to enhance trauma-informed and evidence-based services across the state. Also, DBHDS established the STEP-VA Advisory Committee (STAC) to oversee regional work such as development of regional plans for mobile crisis; enhanced access to services for military members, veterans, and families; and assessment of regional funding needs for other STEP-VA service aspects.

During his brief tenure as Commissioner prior to his untimely passing, Dr. Melton recommended regional coordination on several administrative fronts. For example, last October in one of his *DBHDS Commissioner's Weekly Message*s, he wrote:

Earlier in the week at the Virginia Association of Community Services Boards' fall meeting I shared thoughts … with the audience after having so far visited 60 percent of Virginia's CSBs. DBHDS will support efforts to contract regionally with one electronic medical record system and create insurance billing consortiums to decrease administrative burden. Mira Signer and I met with Director Erik Johnston and Deputy Director Pam Kestner at the Department of Housing and Community Development to outline how we can similarly collaborate with them to expand permanent supportive housing options for our most vulnerable citizens.

His remarks followed the observations he had shared at the Virginia Association of Community Services Boards' fall meeting earlier last October. One of the comments he shared at that meeting relative to the importance of regional collaboration was that smaller CSBs are at risk for financial difficulty as the delivery of services and related reimbursement mechanisms (i.e., managed care) become more complex. Dr. Melton had noted that health care entities across the country are consolidating to decrease unnecessary variation in service delivery and quality and to increase financial resiliency. He also had listed independence and incrementalism as weaknesses in the current CSB structure in Virginia, citing the disparity in electronic health record vendors across the CSBs (asking why not one for the entire state) and the scattered implementation of critical services and pilots (such as the previous alternative transportation pilot only in Wythe County and the fact that not all CSBs offer all the services required by the Certified Community Behavioral Health Clinic model).

Dr. Melton had explained that, in his opinion, to overcome these weaknesses, a clear opportunity exists for regionalization. He had referenced the child and adolescent crisis services regional funding and programming as a successful example. Now the question is whether Mira Signer, the Acting Commissioner, or perhaps more importantly a new Commissioner, will continue focusing on the efficiencies possibly gained through regionalization of administrative tasks.

<u>Behavioral Health Redesign</u>

The Department of Medical Assistance Services (DMAS) currently is engaged in a behavioral health redesign process to ensure that behavioral health services are comprised of a comprehensive continuum of behavioral health services intended to:

- Provide long-term financial stability of the STEP-VA foundational services;
- Align with the behavioral health initiatives of multiple state agencies, to include evidence-based practices for which effectiveness and quality are measured; and
- Transition from a crisis-driven system to services focused on prevention and early intervention.

The specific behavioral health redesign tasks include development of a phased implementation plan, ongoing stakeholder and targeted workgroup involvement, and a rate study. DMAS has developed four phases for the redesign process:

- Phase one: partial hospitalization, intensive outpatient (IOP), program of assertive community treatment (PACT), comprehensive crisis services, multi-systemic therapy, and functional family therapy;
- Phase two: behavioral therapy, home visitation, comprehensive family programs, high fidelity wraparound, and case management;
- Phase three: school-based behavioral health services, independent living and recovery/resiliency services, integrated primary care/behavioral health, and outpatient psychotherapy; and
- Phase four: psychosocial rehabilitation services, intermediate ancillary home-based services, and intensive community treatment.

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Phase one includes those services most likely to positively impact facility census reduction and those more challenging to sustain financially than other services. If not engaged in earlier phases, implementation workgroups are slated to be involved in phase four as well. These workgroups include: evidence-based practice selection and implementation, fiscal planning and implementation, behavioral health workforce development, and quality metrics and outcomes implementation. Mount Rogers Community Services has recommended various staff as representatives to be involved with the various phases and workgroups.

Federal Opioid Crisis Funding

Over the past couple of years, DBHDS has benefitted from the significant infusions of funding at the federal level related to the opioid crisis, passing along the funds to the Virginia CSBs. During fiscal years 2018 and 2019, Mount Rogers and other Virginia community services boards received funding for the Opioid Prevention, Treatment and Recovery (OPT-R) initiative, funded by the federal Substance Abuse and Mental Health Services Administration (SAMHSA). Administered by DBHDS, grant dollars were passed through to CSBs across the state to support prevention, treatment and recovery efforts in Virginia communities. While these SAMHSA OPT-R grants supported funding that crossed state fiscal years (Mount Rogers was awarded funding in both fiscal year 2018 and fiscal year 2019), a major concern about the OPT-R funding was that this grant funding would not continue.

Fortunately, in September 2018, SAMHSA awarded $15.8 million to Virginia's DBHDS for a State Opioid Response (SOR) grant. The purpose of this grant was in line with the OPT-R grant, including support of medication-assisted treatment, reducing unmet treatment needs, and reducing opioid overdose related deaths through the provision of prevention, treatment and recovery activities for opioid use disorder. Mount Rogers' proposals to receive some of the SOR funding were successful, bringing the Agency funding extending through September 30, 2020, for prevention, treatment, and recovery.

Mount Rogers also has received separate special funding to expand detoxification services, to expand access to Medication Assisted Treatment (MAT) for Opioid Use Disorder (OUD), and to provide Project LINK Pregnant and Parenting Women (PPW) intensive case management services for those women who are "at risk" or are currently abusing substances. And, Mount Rogers recently received an award notification from the U.S. Department of Justice, dated September 30, 2019, for a three-year grant for Comprehensive Opioid Abuse Site-based programming.

Supportive Housing

In late fiscal year 2017 and fiscal year 2018, as part of the effort to reduce state facility census, the state made funding available for supportive housing. The focus of supportive housing programming is to provide wrap-around support services to enable individuals experiencing homelessness or who have disabilities, to live in their own "place"—typically a reasonably-priced apartment—rather than in a state facility, or worse, on the streets. Beginning in fiscal year 2018, Mount Rogers was awarded 20 slots for Auxiliary Grant Supportive Housing (AGSH) and 22 slots for Permanent Supportive Housing (PSH). The AGSH slots are being used to provide support services to individuals coming from Assisted Living Facilities (ALFs), and the PSH slots are being used to provide support services to individuals before they have entered an ALF (or have been in an ALF for less than six months). For the individuals that enter these programs, Mount Rogers provides housing support services, in addition to other supportive services that these individuals may need as well (e.g., mental health skill building).

In fiscal year 2019, DBHDS made additional funds available for PSH—to establish new PSH programs and to expand existing PSH programs. DBHDS had $3 million to award, selecting from funding requests that exceeded $8 million. Two CSBs were awarded funds to establish new PSH programs (Staunton and Winchester). Nine existing programs were awarded funds to expand PSH program capacity—Mount Rogers received funding for 20 additional PSH slots. And, as recently as August 2019, DBHDS awarded the Agency funding for an additional 19 housing participants. Identified as one of the social determinants of health, housing stability is a critical component to supporting the physical and mental health of the individuals to whom Mount Rogers provides services.

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Medicaid Customized Rates

As part of the Medicaid Home and Community Based Services (HCBS) waiver program redesign measures, in fiscal year 2017 DMAS implemented new support levels and reimbursement tiers for the waiver program. While the supports levels/tier reimbursement structure covers the support needs and associated reimbursement levels for the substantial majority of individuals receiving Developmental Disability (DD) waiver services, some individuals receiving DD waiver services have support needs that fall outside of the standard. Therefore, to address the individual support needs of DD waiver participants with highly complex medical and/or behavioral support needs, DMAS has made available an option for a customized rate per individual. Mount Rogers now serves multiple individuals in residential programs approved for Medicaid customized reimbursement rates.

Managed Care (Commonwealth Coordinated Care Plus and Medallion 4.0)

The sweep of managed care across the nation is touted as one way to facilitate achievement of healthcare's Triple (or Quadruple) Aim. The Institute for Healthcare Improvement, an organization with worldwide influence, created the Triple Aim as a framework to optimize health system performance. The three aspects of the Triple Aim are: (1) to improve the patient experience of care (quality and satisfaction), (2) to improve the health of populations, and (3) reduce the per capita cost of health care. Many health-related organizations have added a fourth aim—to attain joy in work (satisfied workforce)—resulting in the Quadruple Aim.

A significant initiative during fiscal year 2018 was the rollout of Commonwealth Coordinated Care Plus (CCC+) across Virginia, followed by an even more significant managed care effort during fiscal year 2019 in rolling out Medallion 4.0. Commonwealth Coordinated Care Plus (CCC+) was the proposed Medicaid Managed Long Term Services and Supports (MLTSS) initiative by Virginia's Department of Medical Assistance Services (DMAS). CCC+, serving over 200,000 individuals across the state with complex care needs, transitioned fee-for-service (FFS) Medicaid enrollees, the majority of whom receive long term services and supports, into a coordinated and integrated managed care program. DMAS began implementing the mandatory Medicaid MLTSS plan, CCC+, beginning August 1, 2017, in the Tidewater region, moving westward across the state throughout the summer and fall of 2017. Mount Rogers' service region fell into two CCC+ regions, Roanoke/Alleghany and Southwest, both of which implemented CCC+ effective November 1, 2017. DMAS selected six MCOs to administer CCC+ (Aetna Better Health of Virginia, Anthem HealthKeepers Plus, Magellan Complete Care of Virginia, Optima Health, United Healthcare, and Virginia Premier Health Plan—all of whom have a presence in Mount Rogers' service region).

The next phase of managed care in Virginia was implementation of Medallion 4.0. DMAS again awarded administration of reimbursement to the same six MCOs as already were administering the CCC+ program. Medallion 4.0 is a program covering the previous basic Medallion 3.0 and Family Access to Medical Insurance Security (FAMIS) populations. While the CCC+ program covers over 200,000 individuals across the state, the Medallion 4.0 plans cover approximately 740,000 Medicaid and FAMIS members. Also, new included ("carved in") populations/services under Medallion 4.0 include Early Intervention (EI), Third Party Liability (TPL), and Community Mental Health and Rehabilitation Services (CMHRS). As they did for CCC+, DMAS began implementing Medallion 4.0 beginning August 1, 2018, in the Tidewater region, moving westward across the state throughout the summer and fall of 2018. Mount Rogers' service region again fell into two Medallion 4.0 regions, Roanoke/Alleghany and Southwest, both of which implemented Medallion 4.0 effective December 1, 2018.

The related regulatory changes and Managed Care Organization (MCO) evolution continue to be cumbersome, inconsistent, and time-consuming, especially for healthcare providers (as opposed to the payers themselves). As these initiatives have reached full speed, the managed care environment as it affects CSBs in Virginia seems to be achieving at least one aspect of healthcare's triple aim—that of reducing costs. The belief of Mount Rogers and other CSBs, as providers, is that achieving this goal, however, is at the cost of other aspects of the Triple Aim, in that the patient experience of care is not improving nor is the health of populations. More and more denials of service or approvals of services for shorter periods of time or fewer units are resulting in difficult decisions by CSBs as to whether to continue to provide individuals these services which seem essential to their stability and wellbeing or terminate the unapproved services. Unfortunately, before too long, CSBs will be forced to terminate services if not getting reimbursed, to remain financially sustainable. The worry is that the costs will accumulate elsewhere in the service continuum—most likely in crises services.

The addition of more MCOs to more individuals inevitably continues to complicate the provision of care to individuals and the revenue management cycle of providers.

Value-Based Payment (VBP)

Revolutionary change is on the way regarding medical payment models. The medical reimbursement system is moving from a fee-for-service (FFS) to a value-based payment (VBP) system. Simply put, FFS is a reimbursement methodology that pays for costs or volume, meaning that what is paid for is good for the consumer, and doing more is the business model. On the other hand, a VBP system is just what its name suggests—payment for value, meaning that giving the consumer (and their payer!) what they want and need is the business model. DMAS defines value-based payment reform as creating payment structures that tie provider financial success to patient receipt of high-quality, efficient care. A VBP system includes a broad set of performance-based payment strategies that link financial incentives to service providers' performance on a set of defined measures. The intent is to drive improvements in quality and to slow the growth in health care spending. Examples of quantitative, measurable, clinical outcomes are: reduced emergency department utilization; improved birth outcomes; reduced all-cause hospital readmissions; reduced hospital admissions for chronic disease complications; and efficient utilization of high-cost, high intensity clinical settings.

The *CCC+ MCO Contract for Managed Long Term Services and Supports* and the *Medallion 4.0 Managed Care Services Agreement* between DMAS and the six MCOs both include expectations regarding VBP. In this regard, both documents reference the Alternative Payment Method (APB) Framework published in the Final White Paper developed by the Health Care Payment Learning and Action Network (HCP-LAN). The CCC+ DMAS/MCO contract states that *beginning in the CY 2019 contract year, the Department [DMAS] plans to set targets in the Contract for all VBP (categories 2-4) and Alternative Payment Models (APM) (categories 3-4). The Contractor [MCO] shall expect the targets to increase by at least five (5) percentage points each year*. The Medallion 4.0 contract states that the Contractor shall provide its initial VBP Plan for approval by [DMAS] in 2019.

Workforce Challenges

Workforce shortages in critical positions in community services boards continue to occur. In order to try to be competitive in recruiting and retaining staff, community services board find that they must increase salaries and enhance benefits. However, increasing personnel and operating costs are nearly impossible to sustain without adequate state support and with minimal, if any, increases in reimbursement rates—which possibly will be exacerbated by value-based payment systems. For fiscal year 2019, the state did provide a small amount of funding for a cost of living wage increase. While the amount of funding for this purpose did not totally support Mount Rogers' plans, the Board did award a 2 percent across-the-board wage increase effective May 1, 2019. Mount Rogers has not budgeted funds for a salary increase pool in fiscal year 2020 but will reevaluate the possibility as the fiscal year progresses.

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As for benefits, effective January 1, 2016, the Board transitioned from a self-insured health insurance program to The Local Choice (TLC). In joining TLC, the Board became one of over 300 state-wide employer groups with a total of over 50,000 employees, retirees, and dependents covered. This size carries significantly more negotiating power than the Board's self-insured stand-alone plan. As a result, the Board saw a 13 percent reduction in anticipated health insurance premium costs for 2016, as compared to a projected 8 percent increase had the Board remained self-insured. However, after adjusting the health insurance plan year from that of a calendar year to a fiscal year at the request of TLC, Mount Rogers received a 23 percent increase in premiums from TLC effective July 1, 2017. In trying to minimize this significant increase to staff, the Board passed along to employees only a 6 percent increase, absorbing the remaining increase. Fortunately, the insurance increase from TLC effective July 1, 2018, was only 4 percent for the Key Advantage 500 plan that Mount Rogers continued to offer staff. The Agency also provided a second plan to staff for the first time effective July 1, 2018–a high deductible health plan, which included a health savings account opportunity, funded by the Agency. The TLC insurance increases effective July 1, 2019, were 3 percent for the Key Advantage 500 plan and 7 percent for the high deductible plan. Mount Rogers passed along the 3 percent Key Advantage 500 increase to staff, while the Agency absorbed the entire 7 percent in the high deductible plan to encourage additional participation in that plan.

Another challenge regarding workforce is regulation. For example, as a result of 2017 legislation, the Virginia Board of Counseling began regulating Qualified Mental Health Professionals (QMHPs) effective January 1, 2018. This regulation involved paying registration fees for existing QMHPs and ensuring that newly hired QMHPs met the new regulations. Existing QMHPs as of December 31, 2017, had to register by December 31, 2018, to maintain that credential. Mount Rogers established a workgroup to spearhead this effort, to ensure that all existing QMHPs were registered by the deadline and that all pertinent new hires are appropriately credentialed.

<u>Addiction and Recovery Treatment Services (ARTS)</u>

In response to the opioid epidemic, on April 1, 2017, DMAS's Medicaid Addiction and Recovery Treatment Services (ARTS) became available; and peer recovery supports, a component of ARTS, became available on July 1, 2017. All community-based substance use disorder (SUD) services now are covered by managed care plans. The components of SUD services now are part of a fully integrated physical and behavioral health continuum of care and include: inpatient detox, residential treatment, partial hospitalization, intensive outpatient programs, opioid treatment, case management, peer recovery supports, and crisis intervention. Changes to DMAS's SUD services under ARTS for Medicaid and FAMIS members that have occurred are:

- Expansion of short-term SUD inpatient detox to all Medicaid/FAMIS members;
- Expansion of short-term SUD residential treatment to all Medicaid members;
- Increase in rates for existing Medicaid/FAMIS SUD treatment services;
- Addition of peer support services for individuals with SUD and/or mental health conditions;
- Placement of SUD care coordinators at DMAS contracted managed care plans; and
- Provider education, training, and recruitment activities.

During fiscal year 2018, Mount Rogers implemented new services related to ARTS, more as a result of receiving the OPT-R funds—introducing Medication Assisted Treatment on a very small scale and participating in the regional Peer Supports recovery line effort. During fiscal year 2019, Mount Rogers also began to offer Intensive Outpatient, to move more heavily into Medication Assisted Treatment, and to engage in SUD peer supports services.

System Transformation, Excellence and Performance in Virginia (STEP-VA)

In October 2015, then Governor Terry McAuliffe announced that Virginia's DBHDS had 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 was one of eight Community Services Boards across the state selected to participate in this grant-funded planning process—Phase I. For various reasons, Virginia opted to not pursue funding for Phase II, the demonstration phase, for which eight states were 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. While the federal demonstration phase was scheduled to end on June 30, 2019, Congress extended funding for the demonstration until November 21, 2019, and continued funding for the program is included in the President's budget and is expected to have bipartisan support. The point is that the CCBHC model likely will become the national best-practice model for the structure and delivery of comprehensive behavioral healthcare nationally.

While the Commonwealth did not proceed to the demonstration phase, Virginia began using the significant knowledge gained during the CCBHC planning period to continue planning for a CCBHC-like Virginia model, called STEP-VA, that will require a standard array of services to be offered by all CSBs by July 2021.

Ms. Signer provided the following update in her *DBHDS Acting Commissioner's Weekly Message* of August 26, 2019: *Members of the senior leadership team met with the CSB representatives on the STEP-VA Advisory Committee to continue planning for the implementation of STEP-VA including having critical discussions about planning for necessary program oversight and accountability of a large-scale initiative. We greatly appreciate the input and feedback from CSBs as we work to make the STEP-VA framework a reality in local communities throughout Virginia.*

The phase-in of the services first includes Same Day Access, required to be provided by all community services boards in the state by June 30, 2019. Same Day Access is a program that allows an individual calling or appearing at a community services board to be assessed that same day instead of potentially waiting weeks for a mental health appointment. Based on that assessment, the individual then is scheduled for appropriate initial treatment within ten days. This best practice virtually eliminates "no show" appointments, increases adherence to follow-up appointments, reduces the wait time for appointments, and makes more cost-effective use of staff resources. Mount Rogers already had implemented Same Day Access five years ago.

Next, in 2017, Virginia's General Assembly passed legislation requiring all community services boards to provide outpatient primary care screening and monitoring services by July 1, 2019. Primary care screening and monitoring for individuals will increase the likelihood that those at risk of physical health issues will obtain preventative and primary care for those conditions. Primary care screening and monitoring includes elements such as checking blood pressure, body mass index, temperature, blood sugar, and other health risks. Care coordination also will be an aspect of STEP-VA, to ensure that individuals are linked with health care providers and that follow up occurs to address any barriers to services. Mount Rogers implemented primary care screening and basic primary care acute services early in calendar year 2019.

Then, by June 30, 2021, the remaining components of the CCBHC model, Virginia's STEP-VA program, should be implemented. These additional components are: (i) crisis services for behavioral health; (ii) outpatient behavioral health; (iii) psychiatric rehabilitation; (iv) peer support and family support services; (v) Veterans behavioral health services; (vi) care coordination; and (vii) targeted case management for adults and children.

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One other component that the state is tying into STEP-VA is outcomes measurement. DBHDS is working with MTM Services to adopt that company's outcomes dashboard tool, Service Process Quality Management (SPQM), in conjunction with the Daily Living Activities-20 (DLA-20) assessment tool. SPQM is an analytical tool that provides essential information to management important to managing current operations, strategizing for the future, and demonstrating outcomes to payers. DLA-20 allows behavioral healthcare providers to access data to determine progress or lack of progress in individuals and to develop recovery plans for individuals.

So far, CSBs have received some funding from DBHDS for Same Day Access, primary care screening, outpatient expansion, and MTMs SPQM consulting.

Meanwhile, in late summer, DBHDS contracted with JBS International to complete a comprehensive assessment of all 40 Virginia CSBs to gauge their readiness for STEP-VA. The assessment included review of various behavioral health services and support functions, looking at variables such as:

- Number of individuals served by gender/non-binary, age, race, and language categories;
- Housing, income, and literacy status of individuals served;
- Specific at-risk populations served;
- Criteria for matching providers with individuals served;
- Aspects of various services provided, such as evidence-based/best practices used, program capacity, program utilization, and average time for individuals to receive needed services;
- Use of telehealth, virtual care, or mobile services;
- Staff data, such as size, capacity, caseloads, supervisory frequency, and turnover;
- Use of subcontractors for service provision;
- Financial information regarding services, such as funding sources, costs, budget percentages, and budget sufficiency;
- Status of achieving various STEP-VA initiatives; and
- Strength of quality assurance and continuous quality improvement.

Department of Justice Settlement Agreement

DBHDS provides on its website the following background context regarding the Department of Justice (DOJ) settlement

In August 2008, DOJ initiated an investigation of Central Virginia Training Center (CVTC) pursuant to the Civil Rights of Institutionalized Persons Act (CRIPA). In April 2010, DOJ notified the Commonwealth that it was expanding its investigation to focus on Virginia's compliance with the Americans with Disabilities Act (ADA) and the U.S. Supreme Court Olmstead ruling. The Olmstead decision requires that individuals be served in the most integrated settings appropriate to meet their needs consistent with their choice. In February 2011, DOJ submitted a findings letter to Virginia, concluding that the Commonwealth fails to provide services to individuals with intellectual and developmental disabilities in the most integrated setting appropriate to their needs.

In March 2011, upon advice and counsel from the Office of the Attorney General, Virginia entered into negotiations with DOJ in an effort to reach a settlement without subjecting the Commonwealth to an extremely costly and lengthy court battle with the federal government. On January 26, 2012, Virginia and DOJ reached a settlement agreement. The agreement resolves DOJ's investigation of Virginia's training centers and community programs and the Commonwealth's compliance with the ADA and Olmstead with respect to individuals with intellectual and developmental disabilities.

A statewide stakeholder group has been involved in directing efforts toward achievement of the requirement of the DOJ settlement agreement. This group involves representation from DBHDS, the Virginia Association of Community Services Boards (VACSB), various CSBs, and other disability support agencies in Virginia, as well as family members of individuals in the community. The parties to the settlement agreement jointly selected Mr. Donald J. Fletcher as the Independent Reviewer to conduct investigations and verify data and documentation to follow the progress of the Commonwealth in complying with the terms of the settlement agreement. Mr. Fletcher has been issuing his reports every six months, in June and December.

DBHDS received the most recent DOJ Independent Reviewer's report in June—the 14th Report to the Court, dated June 13, 2019, for the period October 1, 2018 through March 31, 2019. In its *July 17, 2019, DBHDS Monthly Key Updates*, DBHDS summarized the reviewer's report, noting Virginia gained compliance on four additional provisions in Section III of the Settlement Agreement, and maintained all previously determined (70) compliance ratings. New compliance ratings were added related to creating waiver slots, crisis services, and case management. Negotiations have resumed with the Department of Justice attorneys on final Quality and Risk management compliance indicators and should be completed in October 2019. Acting Commissioner Signer provided the following update in her *DBHDS Acting Commissioner's Weekly Message* of September 9, 2019: *The Independent Reviewer sent draft study proposals, and study kick-off calls were completed for seven study areas: Licensing and Human Rights Investigations, Mortality Review, Transportation, Regional Support Teams, Provider Training, Integrated Day and Supported Employment, and the Individual Service Review. The Independent Reviewer and his expert consultants will be completing on site visits to individuals in Northern, Eastern, and Southwestern Regions in September.*

Agency Program Strategic Analysis

In addition to focusing on development and enhancement of services mentioned above, Mount Rogers also is assessing net revenue performance and staff productivity in existing programs that historically have not been able to support themselves. These programs include: adult counseling/clinic services, psychiatry, emergency services, extended care mental health services (mental health skill building, psychosocial rehabilitation, and ambulatory crisis), youth in-home services, intellectual development (ID) day support, some of the ID group homes, and internally-provided transportation by the Industrial and Developmental Centers.

Industrial and Developmental Centers

In the Industrial and Developmental 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 (DOD), continues to generate a fair amount of business. Some DOD items either in production, under contract, or being negotiated include a food service smock, men's general purpose smock, airman battle uniform, additional advanced combat shirts (particularly styled for females), helmet covers, and a sleeping shirt. IDC leadership remains involved with SourceAmerica, to maintain an awareness of current and upcoming federal government projects. The IDCs also 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 other items. All of these various contracts provide employment to individuals with disabilities who receive services at the IDCs.

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Agency Facilities Projects

After extensive planning and resolution of some challenges, the Board began several construction/renovation projects in Smyth and Grayson Counties in late fiscal year 2017, which continued into fiscal years 2018 and fiscal year 2019 including:

- The Agency completed construction of a 7,000 square-foot facility on a section of property that borders Southwestern Virginia Mental Health Institute, in Marion, deeded to the Board four years ago by the Commonwealth of Virginia. This property is contiguous to the next two facilities described. The completed facility is the Rhea B. Lawrence Recovery Center (RBLRC), a crisis stabilization unit providing eight beds for short-term sub-acute services for adult individuals. This Crisis Stabilization Unit is equipped to house individuals placed under a Temporary Detention Order (TDO). The total project cost including furnishings and soft costs was in excess of $2 million. Rooms in this facility currently are being upgraded to serve as residential detoxification beds as well.
- The Agency demolished the Smyth Counseling Center structure, in Marion, to rebuild a totally new facility on the same site. This project encompasses over 11,000 square feet and is named the Lisa H. Moore Counseling Center (LHMCC), after Mount Rogers' long-time Executive Director who retired in December 2017. LHMCC houses adult community counseling services for Smyth County. The Agency made last-minute design revisions to this project to include square footage for a pharmacy (leased and operated by Genoa), primary care service provision space, and additional growth space to maximize the single-story footprint capacity available. The total project cost including furnishings and soft costs was in excess of $2 million.
- The Agency demolished the 3,000-square foot Friendship House facility, in Marion, to provide additional parking for the RBLRC and LHMCC. Previously, this building housed the Board's Smyth County psychosocial rehabilitation therapy program, which was discontinued in 2012 and reestablished during fiscal year 2019 in the building that the Agency currently leases from Smyth County at 115 North Church Street in Marion.
- After relocating Smyth Counseling Center activities to the new Lisa H. Moore Counseling Center in summer 2019, the Agency made additional renovations to the leased facility at 1590 North Main Street in Marion, to convert the space into the Smyth Crisis Care Center. At this facility, Mount Rogers will house emergency services and crisis care, offering a "23-hour living room" crisis model for walk-in individuals as well as those possibly redirected from the hospital emergency room and/or under Emergency Custody Orders or Temporary Detention Orders. The total cost of this renovation slightly exceeded $200,000, and the Agency received funding from DBHDS related to expansion of detoxification services and from the landlord to assist in covering these costs.
- The Agency began renovating and expanding the Grayson Youth and Family Services (GYFS) facility, in Independence, in September 2017. This project included renovation of the existing 2,300 square feet and the addition of over 3,000 square feet. GYFS houses community counseling services for youth in Grayson County and recently began offering counseling services for adults as well. The construction, furnishing and soft costs for this project topped $1.2 million.
- The Agency and primary architect were successful in working with legislators in pursuing a gift from the state of around 7 acres in Marion, around the Southwest Virginia Mental Health Institute and contiguous to the Marion facilities referenced above. The 2019 General Assembly approved legislation to transfer this property to Mount Rogers, and the parties currently are finalizing boundaries and easements to draft and record the deed of transfer. The Agency has developed a master plan for this area to include primarily programing for geriatrics, and plans are underway to begin a capital campaign for these projects in spring 2020, at least to raise funds that may be used as matching funds for federal, state, or other funds requiring a match.

(Continued)

- While many of Mount Rogers' facilities are nearing capacity, the Cline Administrative Building in Wytheville has reached maximum capacity. With expansion of services planned as a result of STEP-VA and other initiatives, the Agency purchased the facility at 750 West Ridge Road in Wytheville during fiscal year 2019, which will be renovated to serve as the Wythe Crisis Care Center, to which emergency services also will be relocated. The Agency purchased this property for $605,000 plus closing costs.
- Mount Rogers also began leasing office space at 184 West Main Street in Wytheville during fiscal year 2019, at which Compliance and Quality Assurance staff are headquartered.
- During fiscal year 2019, Mount Rogers purchased and renovated a group home at 20 Quail Run in Woodlawn, in which one high needs residential individual currently lives. The Agency purchased this facility for $126,250 plus closing costs.
- Mount Rogers also began leasing office space for substance use disorder prevention programming at 915 Glendale Road in Galax during fiscal year 2019.

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 Finance and Administrative Services, Mount Rogers Community Services Board, 770 West Ridge Road, Wytheville, VA 24382.

BASIC FINANCIAL STATEMENTS

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF NET POSITION
June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 11,836,657	$ 12,626,295
Accounts receivable (net of allowance for doubtful accounts)	3,830,705	5,016,795
Prepaid expenses	611,923	584,661
Other receivables	176,868	70,471
Inventories	1,195,321	846,027
Interest receivable	129	1,137
Current portion of note receivable	5,000	10,000
Total current assets	17,656,603	19,155,386
Restricted Current Assets:		
Cash and cash equivalents - restricted	60,588	60,588
Restricted deposits and funded reserves	64,576	395,201
Restricted assets - held in trust	106,052	97,655
Total restricted current assets	231,216	553,444
Total current assets and restricted current assets	17,887,819	19,708,830
Noncurrent Assets:		
Capital assets (net of accumulated depreciation)	18,995,578	16,307,901
Other Assets:		
Long-term portion of note receivable	-	5,000
Total assets	36,883,397	36,021,731
Deferred Outflows of Resources		
Deferred outflows related to pensions	1,602,997	1,779,567
Deferred outflows related to other postemployment benefits	334,546	201,410
Total deferred outflows of resources	1,937,543	1,980,977
Total assets and deferred outflows of resources	$ 38,820,940	$ 38,002,708

(Continued)

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

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF NET POSITION
June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Liabilities		
Current Liabilities:		
Accounts payable	$ 1,573,799	$ 1,644,681
Accrued interest payable	53,757	94,031
Accrued liabilities	20,083	22,691
Unearned revenues	1,598,859	1,962,789
Accrued payroll	164,618	145,921
General note obligations, current obligations	626,770	515,060
Total current liabilities	4,037,886	4,385,173
Long-Term Liabilities:		
Compensated absences	2,108,776	2,046,587
Net pension liability	3,990,844	5,496,291
Net other postemployment benefit liability	1,805,000	1,733,000
General note obligations, net of current obligations	3,878,923	4,707,215
Total long-term liabilities	11,783,543	13,983,093
Other Liabilities:		
Liability for funds held in trust	106,052	97,655
Total liabilities	15,927,481	18,465,921
Deferred Inflows of Resources		
Deferred inflows related to pensions	2,450,182	2,039,673
Deferred inflows related to other postemployment benefits	166,000	193,000
Total deferred inflows of resources	2,616,182	2,232,673
Net Position		
Net investment in capital assets	14,489,885	11,085,626
Restricted	125,164	455,789
Unrestricted	5,662,228	5,762,699
Total net position	20,277,277	17,304,114
Total liabilities, deferred inflows of resources and net position	$ 38,820,940	$ 38,002,708

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

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Operating revenues:		
Third-party fees	$ 35,382,709	$ 34,818,360
Contract sales	9,864,395	6,128,612
Contributions	35,646	12,565
Housing assistance payments	10,516	11,891
Other income	557,508	454,324
Total operating revenues	45,850,774	41,425,752
Operating expenses:		
Personnel	31,445,529	29,803,381
Staff development	165,414	182,976
Facilities	1,937,421	1,706,012
Equipment/supplies	5,387,273	3,276,779
Travel	845,726	858,999
Contract services	16,149,549	15,870,864
Miscellaneous	435,571	480,368
Depreciation	1,318,036	1,208,780
Total operating expenses	57,684,519	53,388,159
Operating loss	(11,833,745)	(11,962,407)
Nonoperating revenue (expense):		
Interest income	149,148	101,876
Interest expense	(239,081)	(320,856)
Gain (loss) on sale/disposal of assets	(129,611)	49,944
Intergovernmental revenues:		
Commonwealth of Virginia	12,770,705	12,932,262
Federal Government	1,624,875	1,223,117
Local Governments	550,340	547,248
Total net nonoperating revenue	14,726,376	14,533,591
Change in net position	2,892,631	2,571,184
Net position, beginning of year – as restated (Note 18)	17,384,646	14,732,930
Net position, end of year	$ 20,277,277	$ 17,304,114

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

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Operating activities:		
Receipts from individuals served and users	$ 53,998,345	$ 46,850,017
Cash paid to suppliers for goods and services	(18,992,449)	(16,013,258)
Cash paid to employees and for benefits	(45,728,125)	(42,858,583)
Net cash used for operating activities	(10,722,229)	(12,021,824)
Noncapital financing activities:		
Intergovernmental revenues	14,573,071	14,784,851
Capital and related financing activities:		
Purchase of capital assets	(4,138,199)	(4,060,609)
Proceeds from sale of assets	2,875	112,246
Withdrawals from reserve accounts	330,625	387,451
Principal payments on borrowed funds	(3,944,582)	(576,172)
Proceeds from new debt	3,228,000	-
Payments to reserve/investment accounts	-	(334,837)
Receipts from note receivable	10,000	12,500
Due to/from affiliates	-	(1,931)
Interest expense	(279,355)	(323,602)
Net cash used for capital and related financing activities:	(4,790,636)	(4,784,954)
Investing activities:		
Interest income	150,156	101,792
Net cash provided by investing activities	150,156	101,792
Net decrease in cash and cash equivalents	(789,638)	(1,920,135)
Cash and cash equivalents - beginning of year	12,686,883	14,607,018
Cash and cash equivalents - end of year	$ 11,897,245	$ 12,686,883

(Continued)

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

MOUNT ROGERS COMMUNITY SERVICES

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

	2019	2018
Reconciliation to Statement of Net Position:		
Cash and cash equivalents	$ 11,836,657	$ 12,626,295
Cash and cash equivalents, restricted	60,588	60,588
	$ 11,897,245	$ 12,686,883
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (11,833,745)	$ (11,962,407)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,318,036	1,208,780
Changes in:		
Accounts receivable	1,186,090	(984,406)
Prepaid expenses	(27,262)	(9,447)
Other receivables	(25,865)	(18,221)
Inventories	(349,294)	(79,468)
Deferred outflows of resources	43,434	350,942
Accounts payable	(70,882)	588,221
Accrued liabilities	6,311	(211)
Accrued payroll and compensated absences	80,886	17,238
Net pension liability	(1,433,447)	(2,697,372)
Deferred inflows of resources	383,509	1,564,527
Net cash used for operating activities	$ (10,722,229)	$ (12,021,824)

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

1. Summary of Significant Accounting Policies

A. Organization – Mount Rogers Community Services (Board) is a jointly governed entity that acts as an agent for the counties of Bland, Carroll, Grayson, Smyth, and Wythe, and the City of Galax, established under Chapter 5 of Title 37.2 of the *Code of Virginia* to establish and operate treatment programs for community mental health, intellectual disabilities, and substance abuse disorders. The Board is made up of representatives of those jurisdictions. The Board is charged by the Virginia Department of Behavioral Health and Developmental Services with providing a system of comprehensive community mental health, 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 Board has adopted the provisions of Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*. This statement provides guidance to determine whether certain organizations should be reported as a component unit based on the nature and significance of their relationship with the Board. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the Board. The financial statements include all funds, agencies, boards, commissions, and authorities that the Board has determined should be included as a component unit. The component units discussed below are blended component units and are included in the Board's reporting entity because of the significance of their operational or financial relationships with the Board.

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

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

C. Basis of Accounting and Financial Statement Presentation – The Board is funded by federal, state, and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The financial statements of the Board have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America (GAAP) for governmental health care reporting entities.

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

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

H. Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

The Board calculates its allowance for doubtful accounts using historical collection data, and in most cases, specific account analysis. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. The receivables shown in the financial statements are shown net of allowances for doubtful accounts. The allowance for doubtful accounts totaled $1,160,200 for 2019 and $1,123,885 for 2018.

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.

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

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

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

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

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

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Q. 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.

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

1. Summary of Significant Accounting Policies (Continued)

R. Deferred Outflows/Inflows of Resources (Continued)

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

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.

T. Investments – The Board's money market investments that have a remaining maturity at the time of purchase of one year or less are measured at fair value.

2. Deposits and Investments

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

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

The Board's investments as of June 30, 2019 were rated by Standard and Poor and the ratings are presented below using the Standard and Poor's rating scale.

	Rating		
Rated Investment Type	**AAAm**	**Unrated**	**Total**
Money Market Fund	$ 64,576	$ -	$ 64,576

2. Deposits and Investments (Continued)

Custodial Credit Risk – For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the 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 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 Board manages its exposure to declines in fair values by limiting the maturity of its investments to less than six months.

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

Investment Type	Fair Value	Less Than 1 Year
Money Market Fund	$ 64,576	$ 64,576

3. Fair Value Measurements

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

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

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

(Continued)

3. Fair Value Measurements (Continued)

The Board has the following recurring fair value measurements as of June 30, 2019:

Investment		Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Fund	$ 64,576	$ 64,576	$ -	$ -

4. Capital Assets

A summary of capital assets is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	$ 744,011	$ -	$ -	$ 744,011
Construction in progress	1,637,948	2,889,232	993,522	3,533,658
Total non-depreciable assets	2,381,959	2,889,232	993,522	4,277,669
Depreciable assets:				
Buildings and improvements	19,338,065	1,228,016	534,750	20,031,331
Equipment and vehicles	5,474,304	1,014,472	78,035	6,410,741
Total depreciable assets	24,812,369	2,242,488	612,785	26,442,072
Accumulated depreciation:				
Buildings and improvements	(6,979,202)	(648,095)	402,263	(7,225,034)
Equipment and vehicles	(3,907,225)	(669,939)	78,035	(4,499,129)
Total accumulated depreciation	(10,886,427)	(1,318,034)	480,298	(11,724,163)
Net depreciable assets	13,925,942	924,454	132,487	14,717,909
Total net capital assets	$ 16,307,901	$ 3,813,686	$ 1,126,009	$ 18,995,578

5. Local Government Revenue

The following are the local revenue receipts for the year ended June 30, 2019:

Bland County	$ 32,000
Carroll County	130,500
City of Galax	32,483
Grayson County	41,200
Smyth County	166,022
Wythe County	148,135
	$ 550,340

6. Long-Term Liabilities

A summary of long-term liabilities follows:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirement	Ending Balance
IDA of the County of Stafford and the City of Staunton	$ 3,420,000	$ -	$ 3,420,000	$ -
Signature Public Funding Corporation	-	3,228,800	90,400	3,138,400
Rural Development Note Payable	883,494	-	21,266	862,228
First Bank & Trust Note Payable	918,781	-	413,716	505,065
Compensated Absences	2,046,587	62,189	-	2,108,776
	$ 7,268,862	$ 3,290,989	$ 3,945,382	$ 6,614,469

6. Long-Term Liablities (Continued)

A detail summary of long-term liabilities follows:

Rural Development Note Payable, issued August 8, 2002. Interest only payments for the first years at 4.5% interest rate. Monthly principal and interest reductions totaling $5,049 beginning August 8, 2004. Note matures February 2042, secured by real estate.	$	862,228
First Bank and Trust Note Payable, unsecured note dated August 14, 2015. Monthly principal and interest reductions totaling $37,064 with interest at a rate of 4.25%, maturing August 14, 2020.		505,065
Signature Public Funding Corporation note payable Original loan of $3,228,800, dated December 13, 2019 4.00% interest, Yearly principal reductions and semi-annual Interest payments. Matures August 1, 2038, secured by real estate		3,138,400
	$	4,505,693

Annual requirements to amortize long-term liabilities:

Year Ending June 30,		Principal		Interest
2020	$	626,770	$	176,914
2021		275,873		156,249
2022		209,625		147,623
2023		216,846		139,093
2024		228,820		130,267
2025-2029		1,281,382		504,593
2030-2034		1,271,452		221,372
2035-2039		240,034		62,905
2040-2042		154,891		9,723
	$	4,505,693	$	1,548,739

7. Compensated Absences

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

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

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

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

Mount Rogers Community Services has outstanding accrued vacation pay that totals $971,825, sick leave accrual of $743,486 and PTO accrual of $393,465 as of June 30, 2019.

8. Surety Bond

Mount Rogers Community Services 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.

9. Leased Facilities

All facilities utilized by the Board are reflected as operating leases in the financial statements. The annual lease payments on all facilities totaled $435,635 in 2019.

10. Unearned Revenue

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

Money received from federal and state agencies in advance of the expenditure. All monies restricted for a specific purpose are carried over into the next fiscal year.	$ 1,589,942
The Board 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 the time the total obligation of the memorial has been met.	926
Money received from individuals and third-party insurance companies for services to be provided. If an individual pre-pays for a service or money is received by the Board in error, these funds are accumulated until at what time they can be refunded or applied to an account for payment on services.	7,991
	$ 1,598,859

11. Contingent Liabilities

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

While no matters of noncompliance were disclosed by the audit, the Federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

12. Restricted Assets – Held in Trust

The Board manages several individual funds. The Board segregates these monies held on behalf of the individuals served and considers them as a fiduciary responsibility. These funds are shown aggregated as an asset entitled "restricted asset – held in trust" and are also reflected as a liability titled "liability for funds held in trust". These accounts totaled $106,052 at June 30, 2019.

(Continued)

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, 2019, an amount of $60,588 has been reflected as restricted cash for this purpose.

14. Pension Plan

Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity:	Virginia Retirement System (System)

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1: Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2:** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

14. Pension Plan (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS - Continued</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>About Plan 1 (Cont.)</td><td>About Plan 2 (Cont.)</td><td>About the Hybrid Retirement Plan (Cont.)
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.</td><td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

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.</td></tr>
</table>

14. Pension Plan (Continued)

Plan Description (Continued)

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

14. Pension Plan (Continued)

Plan Description (Continued)

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

(Continued)

14. Pension Plan (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contributions Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** 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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

14. Pension Plan (Continued)

Plan Description (Continued)

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

(Continued)

14. Pension Plan (Continued)

Plan Description (Continued)

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

14. Pension Plan (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1. **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

(Continued)

14. Pension Plan (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **<u>Exceptions to COLA Effective Dates: - (Cont)</u>** • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)**	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

14. Pension Plan (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Pension Plan Data:

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR is publicly available through the About VRS link on the VRS website at *www.varetire.org*, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms:

As of June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	68
Inactive members:	
Vested inactive members	32
Non-vested inactive members	54
Inactive members active elsewhere in VRS	24
Total inactive members	110
Active members	541
Total covered employees	719

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, 2019 was 6.17% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 Board were $1,502,783 and $1,656,102 for the years ended June 30, 2019 and 2018, respectively.

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

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, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, 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 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees: (Continued)

Mortality rates:

Largest 10 – Non Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% or rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% or rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Morality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fix experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

14. Pension Plan (Continued)

Actuarial Assumptions – General Employees: (Continued)

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

Morality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fix experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Long-Term Expected Rate of Return:

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80
	Inflation		2.50
*Expected arithmetic nominal return			7.30 %

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

14. Pension Plan (Continued)

Discount Rate:

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in fiscal year 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset):

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) – (b)**
Balances at June 30, 2017	$ 41,775,888	$ 36,279,597	$ 5,496,291
Changes for the year:			
Service cost	2,024,924	-	2,024,924
Interest	2,871,431	-	2,871,431
Changes of assumptions	-	-	-
Differences between expected and actual experience	(1,063,379)	-	(1,063,379)
Contributions – employer	-	1,564,202	(1,564,202)
Contributions – employee	-	1,082,727	(1,082,727)
Net investment income	-	2,717,069	(2,717,069)
Benefit payments, including refunds of employee contributions	(1,510,880)	(1,510,880)	-
Administrative expenses	-	(22,128)	22,128
Other changes	-	(3,447)	3,447
Net changes	2,322,096	3,827,543	1,505,447
Balances at June 30, 2018	$ 44,097,984	$ 40,107,140	$ 3,990,844

14. Pension Plan (Continued)

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 (asset)	$ 10,537,045	$ 3,990,844	$ (1,373,149)

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

For the year ended June 30, 2019, the Board recognized pension expense of $492,515. At June 30, 2019, 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	$ 100,214	$ 1,574,672
Change in assumptions	-	492,288
Net difference between projected and actual earnings on plan investments	-	383,222
Employer contributions subsequent to the measurement date	1,502,783	-
Total	$ 1,602,997	$ 2,450,182

The $1,502,783 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 fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2020	$ (381,951)
2021	(510,105)
2022	(815,726)
2023	(377,774)
2024	(220,247)
Thereafter	(44,165)

(Continued)

15. Other Postemployment Benefits Liability – Virginia Retirement System Plans

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

Plan Descriptions

Group Life Insurance Program

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

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

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

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2019 Contribution	$127,546
June 30, 2018 Contribution	$118,410

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

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

The net OPEB liabilities were measured as of June 30, 2018 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2019 proportionate share of liability	$	1,805,000
June 30, 2018 proportion		0.11886%
June 30, 2017 proportion		0.11578%
June 30, 2019 expense	$	38,000

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

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 88,000	$ 32,000
Change in assumptions	-	75,000
Net difference between projected and actual earnings on OPEB plan investments	-	59,000
Changes in proportion	119,000	-
Employer contributions subsequent to the measurement date	127,546	-
	$ 334,546	$ 166,000

The deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2020	$ (2,000)
2021	(2,000)
2022	(2,000)
2023	15,000
2024	24,000
Thereafter	8,000

(Continued)

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

Actuarial Assumptions

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

Inflation	2.50%
Salary increases, including inflation:	
• Locality- general employees	3.50 – 5.35%
Investment rate of return, net of expenses, including inflation*	GLI: 7.00%

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

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

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB liability	$ 3,113,508
Plan fiduciary net position	1,594,773
Employers' net OPEB liability (asset)	1,518,735
Plan fiduciary net position as a percentage of total OPEB liability	51.22 %

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

16. Litigation

At June 30, 2019, there were no matters of litigation involving the Board or which would materially affect the Board's financial position should any court decisions on pending matters not be favorable to the Board.

17. Line of Credit

The Board has a $10,000,000 revolving bank line of credit which bears interest at a variable rate (4.15% at June 30, 2019). The line is payable on demand and has an annual renewal. The next renewal date is December 18, 2019. There were no amounts outstanding on the line at June 30, 2019.

18. Note Receivable

A promissory note was taken in January 2016 from Virginia Produce Company, Inc. in the amount of $45,000 for the sale of equipment. The term of the note is a four year period with an amount of $5,000 due at the time of the note and the remaining payments in the amount of $2,500 made quarterly starting April 1, 2016. This note is unsecured with zero interest. The balance of the note receivable is $5,000 at June 30, 2019.

19. Prior Period Restatement

In 2019, the Board was notified that they had overpaid on their long-term disability premiums dating back to a previous fiscal year. An overpayment amount of $80,532 related to fiscal year 2018 was booked as a receivable at June 30, 2019, and was received in July. This amount has been posted to net position as of the beginning of the year. Fiscal year 2018, presented only for comparative purposes, has not been restated.

20. Upcoming Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

(Continued)

20. Upcoming Pronouncements (Continued)

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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

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REQUIRED
SUPPLEMENTARY INFORMATION

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
VIRGINIA RETIREMENT SYSTEM – GROUP LIFE INSURANCE – GENERAL EMPLOYEES
For Year Ended June 30, 2019

Entity Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2019	0.118 %	$ 1,805,000	$ 24,356,288	7.41 %	51.22 %
2018	0.115	1,733,000	22,603,742	7.67	48.86

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

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

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
VIRGINIA RETIREMENT SYSTEM – GROUP LIFE INSURANCE – GENERAL EMPLOYEES
For Year Ended June 30, 2019

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 127,546	$ 127,546	$ -	$ 24,356,288	0.52%
2018	118,410	118,410	-	22,603,742	0.52

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

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

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2019

	Plan Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	$ 2,024,924	$ 2,060,627	$ 2,084,897	$ 2,052,217	$ 2,029,879
Interest on total pension liability	2,871,431	2,702,931	2,457,389	2,300,997	2,063,206
Difference between expected and actual experience	(1,063,379)	(249,800)	169,967	(1,120,054)	-
Changes of assumptions	-	(717,076)	-	-	-
Benefit payments, including refunds of employee contributions	(1,510,880)	(1,268,175)	(1,140,872)	(857,080)	(535,063)
Net change in total pension liability	2,322,096	2,528,507	3,571,381	2,376,080	3,558,022
Total pension liability – beginning	41,775,888	39,247,381	35,676,000	33,299,920	29,741,898
Total pension liability – ending	44,097,984	41,775,888	39,247,381	35,676,000	33,299,920
Plan Fiduciary Net Position					
Contributions – employer	1,564,202	1,496,594	1,526,709	1,534,637	2,012,595
Contributions – employee	1,082,727	1,039,755	966,873	971,352	960,348
Net investment income	2,717,069	3,908,620	564,555	1,259,817	3,448,725
Benefit payments, including refunds of employee contributions	(1,510,880)	(1,268,175)	(1,140,872)	(857,080)	(535,063)
Administrative expenses	(22,128)	(20,897)	(17,332)	(15,399)	(16,211)
Other	(3,447)	(3,545)	(227)	(275)	182
Net change in plan fiduciary net position	3,827,543	5,152,352	1,899,706	2,893,052	5,870,576
Plan fiduciary net position – beginning	36,279,597	31,127,245	29,227,539	26,334,487	20,463,911
Plan fiduciary net position – ending	40,107,140	36,279,597	31,127,245	29,227,539	26,334,487
Net pension liability – ending	$ 3,990,844	$ 5,496,291	$ 8,120,136	$ 6,448,461	$ 6,965,433
Plan fiduciary net position as a percentage of total pension liability	90.95%	86.84%	79.31%	81.92%	79.08%
Covered employee payroll	$ 22,603,742	$ 21,242,628	$ 19,674,596	$ 19,578,839	$ 19,099,555
Net pension liability as a percentage of covered employee payroll	18%	26%	41%	33%	36%

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

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

MOUNT ROGERS COMMUNITY SERVICES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2019

Year Ended June 30,	Contractually Determined Contribution	Contributions in Relation to Contractually Determined Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	$ 1,502,783	$ 1,502,783	$ -	$ 24,356,288	6.17 %
2018	1,656,102	1,656,102	-	22,603,742	7.33
2017	1,497,576	1,497,576	-	21,242,628	7.05
2016	1,526,709	1,526,709	-	19,674,596	7.76
2015	1,534,637	1,534,637	-	19,578,839	7.84

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

Note 1. Changes of Benefit Terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

(Continued)

Note 2. Changes of Assumptions (Continued)

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

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty disability rates from 60% to 45%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

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OTHER
SUPPLEMENTARY INFORMATION

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF NET POSITION
June 30, 2019

	Mount Rogers Community Services Board	Regional and Special Project Fiscal Agent	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
Assets						
Current Assets:						
Cash and cash equivalents	$ 8,663,761	$ 567,855	$ 2,586,173	$ 18,868	$ -	$ 11,836,657
Accounts receivable (net of allowance for doubtful accounts)	3,830,705	-	-	-	-	3,830,705
Prepaid expenses	80,857	-	531,066	-	-	611,923
Other receivables	96,336	-	80,532	-	-	176,868
Inventories	1,195,321	-	-	-	-	1,195,321
Current portion of note receivable	5,000	-	-	-	-	5,000
Interest receivable	129	-	-	-	-	129
Total current assets	13,872,109	567,855	3,197,771	18,868	-	17,656,603
Restricted Current Assets:						
Cash and cash equivalents – restricted	60,588	-	-	-	-	60,588
Restricted deposits and funded reserves	64,576	-	-	-	-	64,576
Restricted assets – held in trust	106,052	-	-	-	-	106,052
Total restricted current assets	231,216	-	-	-	-	231,216
Total current and restricted current assets	14,103,325	567,855	3,197,771	18,868	-	17,887,819
Noncurrent Assets:						
Property and equipment (net of accumulated depreciation)	18,339,774	-	-	655,804	-	18,995,578
Total assets	32,443,099	567,855	3,197,771	674,672	-	36,883,397
Deferred Outflows of Resources						
Deferred outflows related to pensions	1,602,997	-	-	-	-	1,602,997
Deferred outflows related to other postemployment benefits	334,546	-	-	-	-	334,546
Total deferred outflows of resources	1,937,543	-	-	-	-	1,937,543
Total assets and deferred outflows of resources	$ 34,380,642	$ 567,855	$ 3,197,771	$ 674,672	$ -	$ 38,820,940
Liabilities						
Current Liabilities:						
Accounts payable	$ 1,571,075	$ -	$ 2,360	$ 364	$ -	$ 1,573,799
Accrued interest payable	53,757	-	-	-	-	53,757
Accrued liabilities	20,083	-	-	-	-	20,083
Unearned revenues	1,031,004	567,855	-	-	-	1,598,859
Accrued payroll	164,618	-	-	-	-	164,618
General obligations, current obligations	626,770	-	-	-	-	626,770
Total current liabilities	3,467,307	567,855	2,360	364	-	4,037,886
Long-Term Liabilities:						
Compensated absences	2,108,776	-	-	-	-	2,108,776
Net pension liability	3,990,844	-	-	-	-	3,990,844
Net other postemployment benefit liability	1,805,000	-	-	-	-	1,805,000
General note obligations, net of current obligations	3,878,923	-	-	-	-	3,878,923
Total long-term liabilities	11,783,543	-	-	-	-	11,783,543
Other Liabilities:						
Liability for funds held in trust	106,052	-	-	-	-	106,052
Total liabilities	15,356,902	567,855	2,360	364	-	15,927,481
Deferred Inflows of Resources						
Deferred inflows related to pensions	2,450,182	-	-	-	-	2,450,182
Deferred inflows related to other postemployment benefits	166,000	-	-	-	-	166,000
Total deferred inflows of resources	2,616,182	-	-	-	-	2,616,182
Net Position						
Net investment in capital assets	13,834,081	-	-	655,804	-	14,489,885
Restricted	125,164	-	-	-	-	125,164
Unrestricted	2,448,313	-	3,195,411	18,504	-	5,662,228
Total net position	16,407,558	-	3,195,411	674,308	-	20,277,277
Total liabilities, deferred inflows of resources, and net position	$ 34,380,642	$ 567,855	$ 3,197,771	$ 674,672	$ -	$ 38,820,940

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2019

	Mount Rogers Community Services Board	Regional and Special Project Fiscal Agent	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
Operating revenues:						
Third-party fees	$ 35,356,839	$ -	$ 25,870	$ -	$ -	$ 35,382,709
Contract sales	9,864,395	-	-	-	-	9,864,395
Contributions	27,226	-	4,405	4,015	-	35,646
Housing assistance payments	-	-	-	10,516	-	10,516
Health care benefit payments	-	-	6,983,746	-	(6,983,746)	-
Other income	511,040	30,175	-	19,893	(3,600)	557,508
Total operating revenues	45,759,500	30,175	7,014,021	34,424	(6,987,346)	45,850,774
Operating expenses:						
Personnel	38,232,360	196,915	-	-	(6,983,746)	31,445,529
Staff development	162,190	1,755	-	1,469	-	165,414
Facilities	1,921,545	4,740	-	11,136	-	1,937,421
Equipment/supplies	5,383,340	3,815	-	118	-	5,387,273
Travel	841,876	3,850	-	-	-	845,726
Contract services	5,933,675	3,658,490	6,553,135	7,849	(3,600)	16,149,549
Miscellaneous	420,565	-	13,968	1,038	-	435,571
Depreciation	1,291,477	-	-	26,559	-	1,318,036
Total operating expenses	54,187,028	3,869,565	6,567,103	48,169	(6,987,346)	57,684,519
Operating income (loss)	(8,427,528)	(3,839,390)	446,918	(13,745)	-	(11,833,745)
Nonoperating revenue (expense):						
Interest income	109,128	-	40,020	-	-	149,148
Interest expense	(239,081)	-	-	-	-	(239,081)
Gain (loss) on sale/disposal of assets	(129,611)	-	-	-	-	(129,611)
Intergovernmental revenues:						
Commonwealth of Virginia	9,016,315	3,754,390	-	-	-	12,770,705
Federal Government	1,539,875	85,000	-	-	-	1,624,875
Local Governments	550,340	-	-	-	-	550,340
Total nonoperating revenue (expense)	10,846,966	3,839,390	40,020	-	-	14,726,376
Change in net position	2,419,438	-	486,938	(13,745)	-	2,892,631
Net position, beginning of year, as restated	13,988,120	-	2,708,473	688,053	-	17,384,646
Net position, end of year	$ 16,407,558	$ -	$ 3,195,411	$ 674,308	$ -	$ 20,277,277

MOUNT ROGERS COMMUNITY SERVICES

COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

	Mount Rogers Community Services Board	Regional and Special Project Fiscal Agent	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
Operating activities:					
Receipts from individuals served and users	$ 46,917,794	$ 30,175	$ 7,015,952	$ 34,424	$ 53,998,345
Cash paid to suppliers for goods and services	(15,087,304)	(3,869,565)	(13,968)	(21,612)	(18,992,449)
Cash paid to employees and for benefits	(39,151,667)	-	(6,576,458)	-	(45,728,125)
Net cash provided by (used for) operating activities	(7,321,177)	(3,839,390)	425,526	12,812	(10,722,229)
Noncapital financing activities:					
Intergovernmental revenues	11,240,654	3,332,417	-	-	14,573,071
Net cash provided by noncapital financing activities	11,240,654	3,332,417	-	-	14,573,071
Capital and related financing activities:					
Purchase of capital assets	(4,123,156)	-	-	(15,043)	(4,138,199)
Proceeds from sale of assets	2,875	-	-	-	2,875
Withdrawals from reserve accounts	330,625	-	-	-	330,625
Principal payments on borrowed funds	(3,944,582)	-	-	-	(3,944,582)
Proceeds from new debt	3,228,000				3,228,000
Principal payments on note receivable	10,000	-	-	-	10,000
Interest expense	(279,355)	-	-	-	(279,355)
Net cash used for capital and related financing activities:	(4,775,593)	-	-	(15,043)	(4,790,636)
Investing activities:					
Interest income	110,136	-	40,020	-	150,156
Net cash provided by investing activities	110,136	-	40,020	-	150,156
Net increase (decrease) in cash and cash equivalents	(745,980)	(506,973)	465,546	(2,231)	(789,638)
Cash and cash equivalents - beginning of year	9,470,329	1,074,828	2,120,627	21,099	12,686,883
Cash and cash equivalents - end of year	$ 8,724,349	$ 567,855	$ 2,586,173	$ 18,868	$ 11,897,245
Reconciliation to Statement of Net Position					
Cash and cash equivalents	$ 8,663,761	$ 567,855	$ 2,586,173	$ 18,868	$ 11,836,657
Cash and cash equivalents, restricted	60,588	-	-	-	60,588
	$ 8,724,349	$ 567,855	$ 2,586,173	$ 18,868	$ 11,897,245
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ (8,427,528)	$ (3,839,390)	$ 446,918	$ (13,745)	$ (11,833,745)
Adjustments to reconcile to operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	1,291,477	-	-	26,559	1,318,036
Changes in:					
Accounts receivables	1,186,090	-	-	-	1,186,090
Prepaid expenses	(16,169)	-	(11,093)	-	(27,262)
Other receivables	(27,796)	-	1,931	-	(25,865)
Inventories	(349,294)	-	-	-	(349,294)
Deferred outflows of resources	43,434	-	-	-	43,434
Accounts payable	(58,650)	-	(12,230)	(2)	(70,882)
Accrued liabilities	6,311	-	-	-	6,311
Accrued payroll and compensated absences	80,886	-	-	-	80,886
Net pension liability	(1,433,447)	-	-	-	(1,433,447)
Deferred inflows of resources	383,509	-	-	-	383,509
Net cash provided by (used for) operating activities	$ (7,321,177)	$ (3,839,390)	$ 425,526	$ 12,812	$ (10,722,229)

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities*, *Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Mount Rogers Community Services (the "Board"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) 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 the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **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 the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2019-001.**

Board's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 21, 2019

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

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

Report on Compliance for the Major Federal Program

We have audited Mount Rogers Community Services' (the "Board") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2019. The Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The Board's basic financial statements include the operations of Mount Rogers Community Services, Inc., which is the recipient of $10,516 in Housing and Urban Development tenant rent assistance funds. These federal awards are not included in the Board's schedule of expenditures of federal awards for the year ended June 30, 2019, which are audited in a separate engagement.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms, and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Board's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

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Report on Compliance for the Major Federal Program (Continued)

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the 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 Board's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 21, 2019

MOUNT ROGERS COMMUNITY SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended June 30, 2019

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through:			
Virginia Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services	93.958	N/A	$ 241,228
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	662,808
Substance Abuse & Mental Health Services – Projects of Regional & National Significance	93.243	N/A	328,225
Opioid STR	93.788	N/A	332,166
Total Department of Health and Human Services			1,564,427
Department of Education:			
Pass Through:			
Virginia Department of Education:			
Special Education – Grants for Infants and Families	84.181	N/A	61,243
Total Expenditures of Federal Awards			$ 1,625,670

MOUNT ROGERS COMMUNITY SERVICES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ended June 30, 2019

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, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

Note B – Summary of Significant Accounting Policies

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

Note C – Subrecipients

The Board did not have any subrecipients for the year ended June 30, 2019.

Note D – Outstanding Loan Balances

At June 30, 2019, the Board had no outstanding loan balances requiring continuing disclosure.

MOUNT ROGERS COMMUNITY SERVICES

SUMMARY OF COMPLIANCE MATTERS
June 30, 2019

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

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

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

MOUNT ROGERS COMMUNITY SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2019

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

   Block Grants for the Prevention and Treatment of Substance Abuse CFDA # 93.959
8. The threshold for distinguishing Type A and B programs was **$750,000**.
9. The Board was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

2019-001: Virginia Public Procurement Act (VPPA)

Condition:

The scope of a capital project was changed during the planning stages from a potential renovation to a full demolition and rebuild, resulting in significantly more costs than the original contract amount. Management reported regularly to the Board of Directors throughout the project, but did not obtain written advance approvals prior to the contract modifications.

Criteria:

Under section 2.2-4309 of the VPPA, no fixed-price contract may be increased by more than 25% or $50,000, whichever is greater, without *advance written* approval of the governing body.

(Continued)

D. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)

2019-001: Virginia Public Procurement Act (VPPA) (Continued)

Cause:

The Board began this project several years ago and felt comfortable continuing in to this portion of a comprehensive capital "campus" project thinking that a change in scope on this project component would not necessitate further formal action, since the contractor involved was completing an earlier project phase on contiguous property. No one was aware that this change in scope would necessitate further formal action.

Effect:

The construction project moved forward, even as costs increased with significant design revisions, without proper formal approval or a second bid process.

Recommendation:

Management should revise the Agency's current written procurement procedures to clarify that scope changes in projects resulting in cost increments at threshold levels specified in the Agency's *Fiscal Management Operating Procedures* follow the requirements specified in the *Procedures* and align with VPPA requirements.

Views of Responsible Officials and Planned Corrective Actions:

Management understands that the scope change in this project resulted in cost increases that have required at least advance Board approval, if not also a rebid of the project construction. Management has maintained documentation reflecting frequent updates to the Board regarding scope construction cost changes in this project, believing that the efficiencies gained in working with the same contractor completing a project on contiguous property supported moving forward with the contractor even as scope changes and significant cost increases occurred with this project. Management will revise the agency's current written procurement procedures to clarify that scope changes in projects resulting in cost increments at threshold levels specified in the Agency's *Fiscal Management Operating Procedures* follow the requirements specified in the *Procedures* and align with VPPA requirements.