

MOUNT ROGERS COMMUNITY
SERVICES BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

MOUNT ROGERS COMMUNITY SERVICES BOARD
Financial Statements
For the Year Ended June 30, 2016

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MOUNT ROGERS COMMUNITY SERVICES BOARD
Board of Directors and Officials
For Year Ended June 30, 2016

Officers

Mr. Joe Bean – Chairperson
Ms. Sandy Troth – Vice Chairperson
Ms. Sue Ellen Tate – Treasurer
Ms. Susie Jennings - Secretary

Board of Directors

Bland County

Ms. Sue Ellen Tate

City of Galax

Ms. Sharon Plichta

Smyth County

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

Carroll County

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

Grayson County

Ms. Carolyn Davis
Ms. Sandra Troth

Wythe County

Ms. Barbara Bartnik
Mr. Gary Houseman
Mr. Joe Bean

Officials

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

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Mount Rogers Community Services Board as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Mount Rogers Community Services 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.

Auditors' Responsibility

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

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

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

Opinion

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

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2016, Mount Rogers Community Services Board adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, and 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mount Rogers Community Services Board's basic financial statements. The combining fund 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*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of Mount Rogers Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mount Rogers Community Services Board's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
November 21, 2016

Mount Rogers Community Services Board

Management's Discussion and Analysis

As management of the Mount Rogers Community Services Board (Board) we offer readers of the Board's financial statements this Management's Discussion and Analysis (MD&A)—a narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2016. 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 also is included.

Mission Statement and Organization

Mount Rogers Community Services Board is dedicated to improving the quality of life for people with mental, physical and substance use intervention needs. The Board is committed to respecting people's right to live in their home communities by promoting hope for the future and providing services and supports that promote self-determination, empowerment, recovery, resilience, health, and the highest possible level of individual participation in all aspects of community life, including work, school, family and other meaningful relationships. The Board was established to provide services to the residents of Bland, Carroll, Grayson, Smyth and Wythe counties and the City of Galax. The Board has approximately 24 sites and maintains a service presence in approximately 35 schools throughout the catchment area.

Overview of Financial Statements

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

The Board's financial statements are reported on the full accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Mount Rogers Community Services Board provides behavioral health care services in the areas of mental health, intellectual disabilities and substance use intervention, placing the Board in the health care arena. The Board is a local government agency established under Chapter 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*.

Mount Rogers Community Services Board

Management's Discussion and Analysis

The Board is funded partially by federal, state and local funds. Pursuant to recommendations by the State Department of Behavioral Health and Developmental Services (DBHDS), local, state and federal allocations (considered “subsidies” as defined by GASB and DBHDS) are presented as non-operating revenues in the financial statements.

Basic Financial Statements

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

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

The Statement of Net Position displays the Board's assets, liabilities and the changes in them (referred to as net position). Changes in net position (increases and decreases) represent one metric by which to measure the financial health of the Board and identify whether its financial position is improving or deteriorating. The Statement of Net Position serves the additional purpose of reflecting the balances left at year-end that are available for spending and any restrictions that apply to those balances. Other non-financial factors will need to be considered, however, such as changing individual needs and competition for services, to assess the overall financial health of the Board.

The Statement of Revenues, Expenses and Changes in Net Position presents the operating results of the Board for the fiscal year ended June 30, 2016, with comparative operating performance for the fiscal year ended June 30, 2015. 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.

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, 2016, with a comparison to June 30, 2015.

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

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Board's progress in funding its obligation to provide pension benefits to its employees, supplementary

Mount Rogers Community Services Board

Management's Discussion and Analysis

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 that two entities meet the requirements for inclusion in the Mount Rogers Community Services Board's financial statements.

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

The other component unit included in the financial statements is the Employee Benefit Trust. The Trust was established in 1990 when the Board began to self-insure for employee medical coverage. The Trust has since expanded its use to include operation of the Board's Humanitarian Fund, Wellness activities, and various other employee benefits such as an expanded sick leave benefit. During the current year, 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.

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 \$12,982,383. This amount of net position is a good indicator that the Board's financial position is stable. The Board's overall net position increased \$1,473,660 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 (54%) 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

Mount Rogers Community Services Board

Management's Discussion and Analysis

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 (3%) represents resources that are subject to external restrictions as to how they may be used. The remaining balance of \$5,563,834 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.

The following table reflects the condensed Statements of Net Position:

Summary of Statements of Net Position

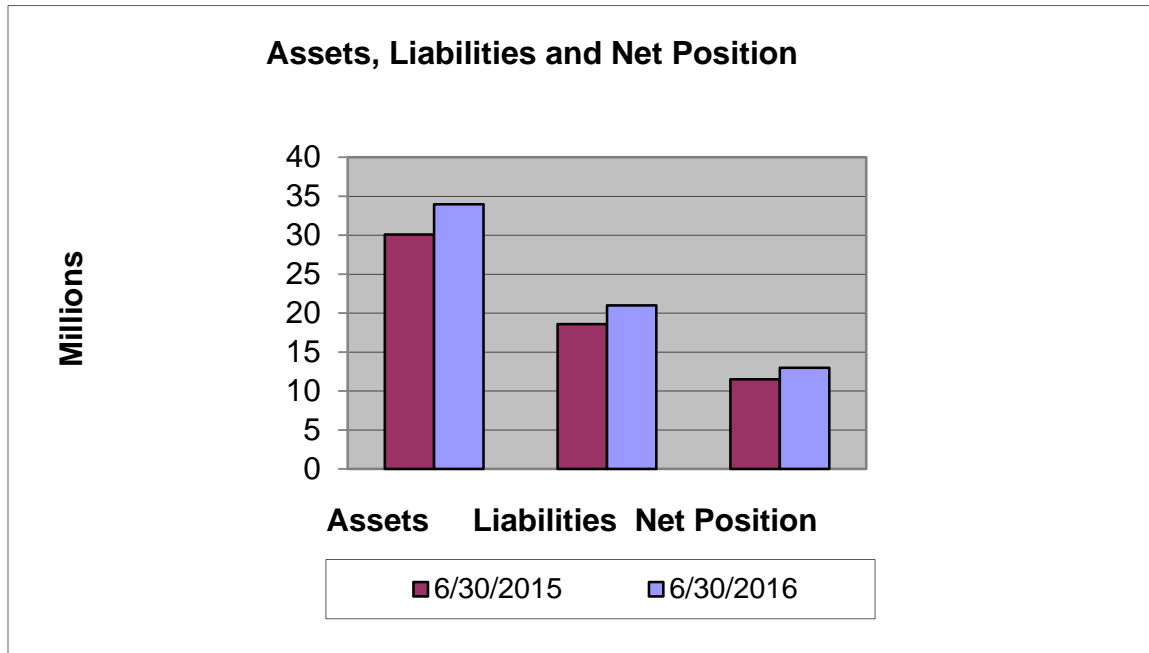
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and other assets	\$ 19,128,272	\$ 16,166,305
Capital assets	13,310,917	12,390,121
Total deferred outflows of resources	<u>1,535,193</u>	<u>1,535,052</u>
Total assets and deferred outflows	<u>\$ 33,974,382</u>	<u>\$ 30,091,478</u>
Current liabilities	\$ 5,214,478	\$ 3,632,277
Long-term liabilities	14,163,779	13,405,289
Deferred inflows of resources	<u>1,613,742</u>	<u>1,545,189</u>
Total liabilities and deferred inflows	<u>\$ 20,991,999</u>	<u>\$ 18,582,755</u>
Net Position:		
Net investment in capital assets	\$ 7,020,859	\$ 7,691,598
Restricted	397,690	505,429
Unrestricted	<u>5,563,834</u>	<u>3,311,696</u>
Total net position	<u>\$ 12,982,383</u>	<u>\$ 11,508,723</u>
Total liabilities, deferred inflows of Resources and net position	<u>\$ 33,974,382</u>	<u>\$ 30,091,478</u>

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

Mount Rogers Community Services Board

Management's Discussion and Analysis

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



The value of unrestricted cash and cash equivalents increased 48% or \$5,061,437 over the prior fiscal year's amount. The positive change in net position this year of \$1,473,660 contributed to the Board's increase in cash, as did loan proceeds of \$2,000,000 of which \$1,860,000 was on hand at June 30. Cash also increased as a result of restricted grants received but not expended during the year. At the end of June, the Board received \$788,031 in new restricted grant funds from which no expenditures had been made before the end of the fiscal year. These amounts received but not spent are not included in the change in net position on the Statement of Revenues, Expenses and Changes in Net Position, but are included on the Statement of Net position as unearned revenues, which increased this year by \$2,166,059.

Accounts receivable for the Board is comprised of three main categories: third party receivables for services billed, contract receivables resulting from Industrial Development Center (IDC) sales, and other receivables. Third party receivables for billed services are due from individuals served, Medicare, Medicaid, insurance companies, and other governmental agencies. The amount owed to the Board in connection with service receivables at the end of FY 2016 is \$2,978,883 compared to the prior year's amount of \$3,799,270. The allowance for doubtful accounts decreased from \$713,355 at the end of FY 2015 to \$702,001 in FY 2016. Therefore, the net service receivables change is a decrease of \$820,388. Board procedures encourage staff to collect copays before services are rendered, to be diligent in reviewing the balances owed to the Board, and to follow up with third-party payers.

The contract sales receivable balance decreased by \$405,700, from \$612,634 at the end of FY 2015 to \$206,934 in FY 2016. The allowance for doubtful accounts was \$6,608 in FY 2015 compared to \$2,232 in FY 2016. The allowance for doubtful accounts remains low for contract sales receivables because the total balance is small. The Industrial Development Centers are

Mount Rogers Community Services Board

Management's Discussion and Analysis

very diligent in their collection process to ensure amounts are collected. The receivable balance and the revenue for Board contract sales both have decreased in the current fiscal year as a result of a decline in government contracts for products.

Board inventories relate to IDC programs involving contracts with government and corporate customers, which provide opportunities for the individuals that we serve to have jobs. The IDC purchases manufacturing supplies and equipment in anticipation of these contracts. The Board had some of these materials on hand at the end of both FY 2015 and FY 2016, reflected as inventory on the balance sheet. This inventory varies relative to the customer orders that the IDC has at any one time. Inventory decreased by \$694,470, from \$1,035,459 at the end of FY 2015 to \$340,989 in FY 2016. Inventory has decreased substantially as a result of the slowdown in government contracting.

Prepaid and other receivables combined decreased by \$208,392 from last fiscal year. At the end of FY 2015, monies had been disbursed by the Commonwealth of Virginia for our new Youth Residential Crisis Stabilization Program but were not received by the Board until July. This amount, \$57,000, was recorded as a receivable in FY 2015 but there was not a similar receivable applicable to FY 2016. The Board also prepaid the license fees at the end of FY 2015 for the payroll and time keeping program (KRONOS) for the next fiscal year. This prepayment totaled \$81,141 in FY 2015, and the corresponding prepayment for FY 2016 was only \$1,330. Other items which affected the decrease were a receivable due on the Wounded Warrior Program of \$4,369 for the prior year which was not applicable this year; gasoline refunds of \$5,185 in the prior fiscal year with no amounts due in the current year; and Logisticare program receivables of \$13,260 in the prior year with only \$6,349 due in the current year.

During the current year, the Board sold a piece of equipment to a previous customer. The Board agreed to finance the sale of equipment. The total sales price of the equipment was \$45,000, and the note 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 made January 1, 2020. The note is an interest free note and is secured by the equipment. The balance of this note receivable at June 30, 2016, is \$37,500.

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. These amounts represent the monthly accumulation of principal and interest, which are paid to the lender twice each year, in August and February. The restricted assets held in trust have an off-setting liability account, liability for funds held in trust. These funds are those for which the Board has a fiduciary responsibility to individuals for whom we serve as payee agent. The Board serves a total of approximately 135 individuals in this capacity.

Mount Rogers Community Services Board

Management's Discussion and Analysis

Compensated absences increased this year by \$70,883, which is a 4% increase. As the Board employs more staff, the compensated absences balance most likely will grow larger, depending on when staff use their annual leave. Board policy does limit the amount of annual leave an employee can accrue. Each year on January 15, the annual leave resets to 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 increased \$2,166,059 or 146% over last year. Unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met—e.g., for restricted funds received in advance where expenditures are made at a later date. The majority of unearned revenue is monies received from state and federal agencies for restricted purposes, which have not yet been spent. At the end of June, the Board received \$788,031 in new restricted grant funds from which no expenditures had been made before the end of the fiscal year. These funds were for the Alternative Transportation and Census Reduction programs. In FY 2016, the Board was implementing two programs for which the Board started receiving funding at the beginning of the year, but the programs were not operational for the entire year. The Crisis Intervention Team (CIT) assessment site triage, assessment, treatment, and referral program received funding of \$336,231 of which \$281,854 was unearned at year end. The Youth Regional Residential Crisis Stabilization Unit received funding of \$900,000 of which \$572,955 was unearned at the end of the fiscal year.

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Mount Rogers Community Services Board

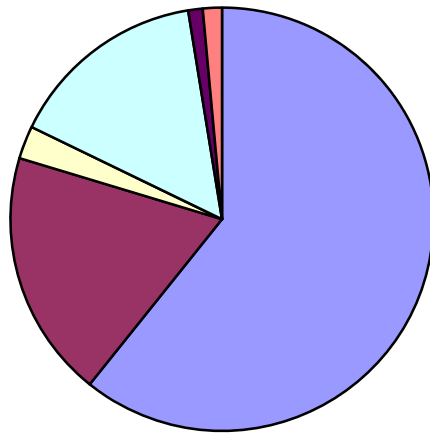
Management's Discussion and Analysis

The following table reflects the condensed revenues and expenses of the Board for FY 2016 and FY 2015:

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

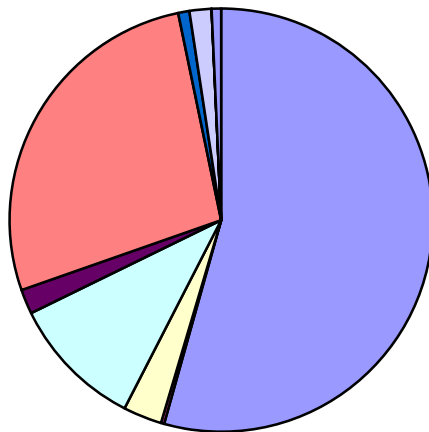
	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating Revenues:			
Fees	\$ 30,072,264	\$ 29,089,054	3.4%
Contract Sales	7,555,864	11,022,835	(31.5)%
Contributions/Other Local	7,018	8,657	(18.9)%
Miscellaneous	580,135	766,815	(24.3)%
Housing Payments	16,527	17,049	(3.1)%
Non-operating Revenue:			
State Funding	9,361,780	9,349,125	0.1%
Federal Funding	1,243,318	1,086,582	14.4%
Local Governments	546,505	557,405	(2.0)%
Interest Income	89,558	64,450	39.0%
Gain on Disposal of Assets	<u>28,530</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 49,501,499</u>	<u>\$ 51,961,972</u>	<u>(4.7)%</u>
Expenses:			
Operating Expenses			
Personnel	26,102,777	27,151,666	(3.9)%
Staff Development	118,808	71,887	65.3%
Facilities	1,418,570	1,503,633	(5.7)%
Equipment/Supplies	4,904,490	7,028,506	(30.2)%
Travel	899,666	990,487	(9.2)%
Contract Services	13,014,784	13,040,794	(.2)%
Miscellaneous	411,151	406,472	1.2%
Depreciation	807,438	838,397	(3.7)%
Non-operating Expenses			
Interest Expense	350,155	291,096	20.3%
Loss on disposal of assets	<u>-</u>	<u>13,440</u>	<u>-</u>
Total Expenses	<u>\$ 48,027,839</u>	<u>\$ 51,336,378</u>	<u>(6.4)%</u>
Change in Net Position	<u>\$ 1,473,660</u>	<u>\$ 625,594</u>	

Revenues FY 2016



- Fees
- State Revenue
- Federal Revenue
- Contract Sales
- Local Gov't
- Misc and Other

Expenses FY 2016



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

Mount Rogers Community Services Board

Management's Discussion and Analysis

FY 2016 reflects a slight growth in fees for services 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 3.4%, or \$983,210, compared to FY 2015. 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. Included in fees for FY 2016 and FY 2015 is receipts from the Centers for Medicare and Medicaid Services for the Electronic Health Records Incentive Program ("Meaningful Use"). Meaningful Use receipts totaled \$123,952 in FY 2016 as compared to \$62,243 in FY 2015.

Contract sales revenues decreased by \$3,466,971, or 31.5%, as compared to FY 2015. The IDCs continue to have government and corporate contracts of which the largest contractor is the Department of Defense. The changes in this contract accounts for the significant fluctuation in the sales volume. During FY 2015, the IDCs had a large volume of business associated with the production of the Advanced Combat Shirt (ACS) provided to the U.S. Army. In FY 2016, the IDCs experienced a significant reduction in production of the ACS since the government contract for this item ended in January 2016. Defense contracts in general have reduced in line with a reduction in government defense spending.

Contributions and other local funding remained steady from FY 2015 to FY 2016. Other local funding are amounts from local agencies for program activities not attached to a specific individual, while contributions are from the general public, businesses or other non-profit agencies.

Miscellaneous income decreased from last year by \$186,680 or 24.3%. This decrease resulted primarily from two major factors. At the end of FY 2015, the Board's role as fiscal agent for the PPR 3 Consortia Virginia Veteran and Family Support (VVFS) Program (previously Virginia Wounded Warrior Program) ended. The VVFS program monitors and coordinates behavioral health, rehabilitative and support services for veterans of any era and members of the National Guard and Reserves not in active federal service. While the Board continues to benefit as an active Community Services Board (CSB) in this program, the Board no longer runs Consortium funds through Board accounts but receives and expends only those funds specific to the Board. This change in the Board's role decreased miscellaneous income by \$135,869. The other major factor contributing to the decrease in miscellaneous income was a reduction in the amount of grant funding received from the Wythe-Bland Foundation. In FY 2015, the Board's youth and family services program applied for and received \$200,000 from the Wythe-Bland Foundation, used to pay for services for uninsured and underinsured youth in need of the Board's services. In FY 2016, the Wythe-Bland Foundation grant for similar purposes, as well as to enhance family supports for youth receiving services, was \$100,000.

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). The Board also acts as fiscal agent for the broader Health Planning Region 3 (HPR 3) Training Consortium. The Department of Behavioral Health and Developmental Services provides framework for funding one project in each of Virginia's

Mount Rogers Community Services Board

Management's Discussion and Analysis

Health Planning Regions. The HPR 3 Training Consortium identified accessible quality and affordable training as a high need for professional development in Southwestern Virginia. The Consortium strives to meet the needs of behavioral health and intellectual disabilities staff and is a primary resource for professionals needing credits for Licensed Clinical Social Worker (LCSW) and Licensed Professional Counselor (LPC) licensure, as well as Substance Abuse Certification. Also for HPR 3, 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 youths. Such services include contracted telepsychiatry services, as well as center-based and ambulatory crisis stabilization programs.

State revenue and local funding remained relatively unchanged from last year, while we had a small increase in federal funding. Federal funding increased \$156,736 or 14.4%. The majority of the increase relates to new federal funding for the planning phase of the Certified Community Behavioral Health Clinics (CCBHC) initiative. This new funding totaled \$87,253.

Personnel expenses reflect a decline of \$1,048,889 or 3.9% in FY 2016 as compared to FY 2015. \$515,722 of this decrease represents the decline in wages associated with the IDCs. The decrease in government contracts referenced above led to a reduction in the workforce at the IDCs. Another item that attributed to a decrease in personnel costs was the budget enhancement strategy of leaving non-revenue generating positions vacant until factors clearly indicated that the budget would substantiate the expense.

Staff development expenses increased from the prior year by \$46,921 or 65.3%. The most significant reason for this increase is staff development associated with the Board's planning effort for the CCBHC initiative. In FY 2016, \$22,267 was spent on training geared toward the CCBHC topic.

Facilities expenses decreased by \$85,063, or 5.7%, from the prior year. While some utility expenses increased by small margins, the Board's telephone expense decreased by \$106,762. The telephone expense includes land-line, cell phones, Digital Subscriber Line (DSL) services and internet access. During FY 2016, the Board began utilizing federal funding through the Universal Service Fund. This fund helps rural healthcare facilities obtain funding for state-of-the-art telecommunications network and bandwidth services and has resulted in a reduction in Board-paid telecommunication expenses.

Equipment and supplies expenses decreased by \$2,124,016 or 30.2%. This decrease is attributable to contract supplies. Contract supplies collects the costs of items used in manufacturing at the IDCs. This line item decreased by \$2,287,151 resulting from the decrease in production by the IDCs.

Travel expenses decreased this year by \$90,821 or 9.2%. The IDC transportation program saw transportation expenses decrease this year. The IDC provides transportation to individuals who work in production at the IDC centers. The reduction in contract sales and the related reduction

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in the workforce, along with the IDC's transition to a four-day workweek for the manufacturing centers as a result of the Affordable Care Act, resulted in reduced transportation costs. IDC transportation costs decreased by \$59,804. The other area in which the Board had a reduction in travel expenses was the Mental Health Skill Building Program. This program area had a reduction of \$20,820 in travel, resulting from a reduced workforce in the FY 2016 year, from staff attrition.

Contractual services, miscellaneous expenses, and depreciation remained relatively steady from the prior fiscal year.

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

Overall, unrestricted cash increased this year by \$5,061,437. The board generated \$5,444,941 in net cash from its operating and noncapital financing activities aggregated for FY 2016. Receipts from individuals served and IDC customers generated \$45,635,613, while receipts from state, federal and local governments were \$13,317,662. Cash outflows to employees and for employee benefits totaled \$38,517,910, and payments for goods and services totaled \$14,990,424.

The net cash used by capital and related financing activities netted to \$(428,112). During the current fiscal year, the Board borrowed \$2,000,000 through First Bank and Trust in anticipation of construction in Smyth County. 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 Virginia Housing Authority, all totaling \$408,465. Capital activities also included purchases of capital assets of \$1,766,122. These capital expenditures included the purchase of real estate (\$202,128), remodeling and constructing of facilities (\$427,115), the purchase of vehicles (\$1,097,289) and \$39,590 of various other items. Other items included in capital and financing activities include proceeds from the sale of assets of \$21,419, the receipt of principal payments of \$7,500 on notes receivable, withdrawals in excess of contributions to reserve accounts of \$24,509 and a miscellaneous reduction of \$13.

Net cash used by investing activities was \$89,621. This amount is the receipt of interest income of \$89,621.

Capital Assets

The Board's capital assets net of accumulated depreciation totaled \$13,310,917 on June 30, 2016. This amount represented a net increase of \$920,796 from the previous fiscal year end. Depreciation expense totaled \$807,438 for the current fiscal year. During this fiscal year, the Board purchased a total of \$1,766,122 in capital assets. These capital expenditures included the purchase of real estate of \$202,128, remodeling and constructing of facilities for \$427,115, the purchase of vehicles of \$1,097,289 and \$39,590 of various other items. The purchase of real estate included a residence to be used as a residential group home facility in the Wythe County area. During the current year, the Board incurred design costs related to forthcoming construction of a building to house our adult residential crisis stabilization unit, which offers short term, sub-acute services for adults. This facility, to be located in Smyth County, has been

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named the Rhea B. Lawrence Recovery Center. Architecture services for this project were advertised in fall 2013, and expenses for this year totaled \$51,696 in pre-construction costs. During the current year, the Board began renovating a building to house our youth residential crisis stabilization unit, which offers short term, sub-acute services for youths. The renovation of this leased facility, in Wythe County, was almost complete at fiscal year-end. Renovation costs through June 30, 2016, for this program totaled \$214,116. The Board also remodeled an existing unoccupied building to house the Program of Assertive Community Treatment (PACT) program. The PACT program promotes independent living in the community for persons with the most severe and persistent mental illnesses. The amount spent on remodeling of the PACT office was \$138,118. The largest addition to fixed assets was the purchase of forty-six vehicles for a total purchase price of \$1,097,289.

The following table reflects the comparison of Capital Asset components as of June 30, 2016, and June 30, 2015:

<u>Description .</u>	<u>FY 2016</u>	<u>FY 2015</u>
Land	\$ 686,540	\$ 687,011
Building and Land Improvements	16,819,418	16,428,316
Equipment and Vehicles	5,167,303	4,449,555
Construction in Progress	370,525	104,730
Total	\$ 23,043,786	\$ 21,669,612
Accumulated Depreciation	(9,732,869)	(9,279,491)
Net Property and Equipment	<u>\$ 13,310,917</u>	<u>\$ 12,390,121</u>

Long-term debt

During the current fiscal year, the Board obtained a loan for \$2,000,000 through First Bank and Trust. This loan was dated August 14, 2015 and is to be used for facilities projects in Smyth County, including construction of the Rhea B. Lawrence Recovery Center and partial funding of renovations to the Smyth Counseling Center and the Friendship House. The loan has an interest rate of 4.25%, is unsecured and is being repaid over five years, at \$37,064 monthly (principal and interest). Although the Rhea B. Lawrence Recovery Center has not broken ground, the Board began repaying the loan in September 2015 and has repaid \$304,628 of principal.

Principal payments of \$65,000 were paid on the Board's bond issuance with the IDA of the County of Stafford and the City of Staunton, \$18,586 was paid on the mortgage loan with Rural Development and \$20,251 was paid on the mortgage loan with Virginia Housing Development Authority. Board long-term indebtedness at June 30, 2016 is \$6,290,058, including the current portion due during FY 2017, of \$491,682.

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Budgetary Highlights

The following table reflects the budget to actual comparison for FY 2016:

	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Actual</u>
Revenues:			
Fees	\$ 30,530,574	\$ 29,145,651	\$ 30,617,268
State Funding	9,245,388	10,703,922	11,619,135
Federal Funding	938,970	1,068,682	1,070,682
Contract Sales	10,866,757	7,708,468	7,596,420
Local Governments	561,151	546,505	546,505
Contributions/Other local	157,786	105,645	139,569
Miscellaneous	323,724	364,207	417,807
Prior-year Re-grant	621,868	1,423,863	1,469,418
Total Revenues	<u>\$ 53,246,218</u>	<u>\$ 51,066,943</u>	\$ 53,476,804
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			<u>(3,975,305)</u>
Total GAAP Revenue per the Statement of Revenues, Expenses and Changes in Net Position			<u>\$ 49,501,499</u>
Expenses:			
Personnel	\$ 33,395,531	\$ 33,328,980	\$ 32,596,803
Staff Development	77,706	97,448	102,068
Facilities	2,228,109	2,197,836	2,265,774
Equipment/Supplies	7,489,302	5,155,536	5,479,891
Travel	1,053,599	934,795	897,909
Contract Services	8,665,637	8,964,947	7,699,121
Miscellaneous	336,334	387,401	400,217
Total Expenses	<u>\$ 53,246,218</u>	<u>\$ 51,066,943</u>	\$49,441,783
Adjustments to Convert Cash Basis to GAAP Accrual Basis and Component Units			<u>(1,413,944)</u>
Total GAAP Expenses per the Statement of Revenues, Expenses and Changes in Net Position			<u>\$ 48,027,839</u>

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 interest income and interest expense.

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Economic Outlook

After a second year of improved financial performance in FY 2015 as compared to FY 2014, the Board's change in net position for FY 2016 reflects even stronger performance than that of FY 2015. The Board's change in net position increased during FY 2016 by \$1,473,660, as compared to FY 2015's positive change in net position of \$625,594. Despite the stronger financial performance in FY 2016, the financial outlook for FY 2017 remains tight. The Board is continuing to monitor a set of budget enhancement strategies to improve, or at least maintain, financial performance. The success of these strategies is dependent upon the implementation of tactics in all areas of service and administrative support. For example, these tactics include: researching new funding sources; evaluating the productivity of all programs; identifying cost efficiencies; enhancing reimbursement and billing procedures; and maximizing the utilization of Board services.

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

- A challenging budget environment at the state level
- Continued focus by the state on regional and special project funding rather than general funding at the individual CSB level
- Increased need to consider private funding sources
- Continuing evolution of Managed Care Organizations (MCO) and their requirements
- Extension of Virginia Governor's Access Plan for the Seriously Mentally Ill (GAP)
- Redesign of the Medicaid Home and Community Based Services (HCBS) waiver program
- Preparation for Commonwealth Coordinated Care Plus (a Managed Long Term Services and Supports program—MLTSS)
- Addiction and Recovery Treatment Services (ARTS)
- Consideration of STEP-VA standardized services model across Virginia CSBs
- Update to Department of Labor's overtime regulations
- Board program growth
- Compensation and benefits for Board staff (salary increases and health insurance transition)
- Industrial Development Centers (IDCs)
- Board facilities projects

State Budget Environment

In September 2016, the Interim Commissioner of the Virginia Department of Behavioral Health and Developmental Services (DBHDS), confirmed to CSBs that the state is facing a challenging budget environment. He noted that, *based upon the revenue forecast presented, it is expected we will experience budget strain over at least the next two fiscal years.* Virginia's Department of Planning and Budget (DPB) is requiring state agencies, including DBHDS, to develop five percent budget reduction plans for FY 2017. Dr. Barber noted that CSBs *will not be a part of the across-the-board savings plans at this time [September 2016]; however, correspondence from DPB indicated that the boards could be subject to targeted cuts.* The state had planned to make some

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funds available in FY 2017 to assist with salary increases, but those funds rather will be used to offset the state's revenue shortfall. DBHDS has committed to minimize the impact of cuts to direct services but is unsure of what additional budget reduction strategies may be necessary for FY 2018, the second year of the biennium.

State Regional/Special Project Funding

While the state general fund budget faces challenges, the state recently has been more generous with funding at the regional level. The Board serves as fiscal agent for various regional funds, including family support services, consumer support services, Local Inpatient Purchase of Services (LIPOS), Discharge Assistance Planning (DAP), and census reduction (received regional funds in June 2016 for census reduction). 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, Southwestern Virginia Mental Health Institute, and Southwestern Virginia Training Center, along with Mount Rogers Community Services Board. Mount Rogers also serves as fiscal agent for youth mental health crisis response and child psychiatry funds. The regional partners sharing in these funds include those in PPR 3, 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.) The total amount of special purpose regional funds for which the Board serves as fiscal agent received for FY 2016 were nearly \$5.9 million, an increase from \$4.9 million in FY 2015. The significant increase represented funds received for the new youth regional Positive Alternatives to Hospitalization (PATH) Crisis Stabilization Unit (CSU), which the Board recently opened in a renovated facility in Wytheville.

Private Funding

Since state general funds are stagnant, the Board increasingly is looking to private funding sources—especially to assist individuals who are uninsured or underinsured, to enable them to receive the Board's services. For example, in FY 2015, the Board's youth and family services program applied for and received \$200,000 from the Wythe-Bland Foundation. These funds were used to pay for services for uninsured and underinsured youth in need of the Board's services. The Board applied for and received additional funding (\$100,000) for FY 2016 from the Wythe-Bland Foundation for similar purposes, as well as to enhance family supports for youth receiving services.

Managed Care Organizations

Regulatory changes and Managed Care Organization (MCO) evolution continue to be cumbersome and time-consuming. The differences between MCO agreements result in varied, and sometimes confusing, requirements. For example, each MCO must credential all of our providers. While some MCOs may use a centralized credentialing data base to approve our providers, other MCOs require primary source verification (involving separate applications for each of our providers).

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Also, individuals are able to switch between MCOs as frequently as they desire, meaning that CSBs must complete insurance verifications and service authorizations more frequently. Further, MCOs have narrowed their coverage of services and have tightened their authorization approval processes, resulting in more denied claims and delays in processing services for reimbursement.

Five years ago, when MCOs first were coming on the scene, they were involved only in certain Medicaid services—primarily on-site and case management. However, effective December 1, 2013, Virginia's Department of Medical Assistance Services (DMAS) awarded a contract to one MCO—Magellan of Virginia—to serve as the behavioral health services administrator for individuals enrolled in Virginia's Medicaid and FAMIS programs, managing a significant portion of Medicaid services including Home and Community Based Services. Magellan brought its own set of coverage and service requirements. Regarding burdensome requirements, effective September 1, 2016, Magellan of Virginia requires service providers to notify Magellan of member adverse outcomes within one business day following knowledge of an incident—applying this requirement to individuals currently in treatment as well as those discharged from treatment within 180 days of the incident. DMAS also recently announced that, given Magellan's current administrative functions, including medical necessity review, level of care assessment, and authorization of services, the role of fulfilling the Virginia Independent Clinical Assessment Program (VICAP) can now be filled by Magellan within its existing process. Therefore, DMAS is preparing to discontinue the CSB VICAP function beginning on December 1, 2016. Transferring this billable service to Magellan will reduce revenue for those providers currently providing VICAP assessments.

Virginia Governor's Access Plan for the Seriously Mentally Ill (GAP)

In January 2015, the Department of Medical Assistance Services (DMAS) began a two-year, state-wide demonstration waiver, the Virginia Governor's Access Plan for the Seriously Mentally Ill (GAP), under a package of benefits for individuals with incomes at a specific percentage below the Federal Poverty Level. GAP is a program that integrates primary and behavioral health services and coordinates care for Virginia's uninsured adults with serious mental illness. Effective July 1, 2016, the eligibility guidelines for GAP increased from 60 percent to 80 percent of the Federal Poverty Level (FPL). Also, in June 2016, the federal Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services granted the Virginia Department of Medical Assistance Services (DMAS) request that this GAP demonstration be extended beyond the end of calendar year 2016 (the original demonstration period end date for Virginia) to December 31, 2019.

Waiver Redesign

On January 16, 2014, the Centers for Medicare and Medicaid Services (CMS) published in the Federal Register a Final Rule on Home and Community Based Services (HCBS). These regulations define, describe, and align home and community-based setting requirements for Medicaid programs. The Final Rule also defines person-centered planning requirements for individuals in home and community based settings under both Medicaid HCBS waiver and HCBS State plan authorities. The regulations were effective March 17, 2014. However, CMS allotted an

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implementation period of up to five years, with the expectation that all HCBS Medicaid programs be fully compliant by March 17, 2019. As required by CMS, Virginia has redesigned its Medicaid Home and Community Based Services (HCBS) waiver program, amending the Intellectual Disability, Developmental Disability, and Day Support (ID, DD, and DS) waivers and increasing services and options that promote community integration and engagement. Virginia's waiver redesign program is called My Life, My Community, and includes the following redesign elements to begin July 1, 2016, or upon CMS approval:

- Amended waivers with new services
- New group home rates
- CSBs assume single point of entry for all developmental disability waivers
- New eligibility process and tool—Virginia Individual DD Eligibility Survey (VIDES)
- New slot assignment procedures
- New support levels and reimbursement tiers
- New Waiver Management System (WaMS) to replace IDOLS
- Single statewide priority-based waitlist

The redesigned waiver is prompting modifications to the Board's residential and day support facilities—downsizing the populations in these programs/facilities to respond to reimbursement rate adjustments for individuals served in these facilities/programs, while also anticipating a decrease in sponsored residential services. The Board also is considering new related ID/DD programs, such as community engagement, community coaching, crisis support, shared living, and supported living.

Commonwealth Coordinated Care Plus

In early 2014, the Commonwealth Coordinated Care (CCC) pilot program, affecting only Wythe County in the Board's service area currently, became operational. The CCC pilot is scheduled to continue through December 31, 2017. Commonwealth Coordinated Care Plus (CCC Plus) is Virginia DMAS's proposed Medicaid Managed Long Term Services and Supports (MLTSS) initiative. CCC Plus will serve approximately 213,000 individuals across the state with complex care needs, transitioning 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 will implement the mandatory Medicaid MLTSS plan, CCC Plus, beginning July 2017. This integrated delivery model will include medical services, behavioral health services, and long-term services and supports.

A September 15, 2015, DMAS letter to stakeholders explained that *under this single MLTSS program, the majority of the remaining fee-for-service populations, including those eligible for the CCC program, dual eligible members currently not eligible for the CCC program, and individuals receiving long term services and supports either through a waiver or who reside in a nursing facility, will be mandatorily enrolled in managed care. In December 2017, when the CCC program ends, DMAS will enroll these individuals into the MLTSS program.* DMAS currently is working through a competitive request for proposal process to select health plans to administer CCC Plus, which will operate state-wide, to be phased in regionally. The Board's service region falls into two separate CCC Plus regions; Wythe County is in the Roanoke/Alleghany region,

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while the Board's other localities are in the Southwest region. Both of these regions are scheduled to implement CCC Plus effective November 1, 2017.

Addiction and Recovery Treatment Services (ARTS)

In response to the Opioid epidemic, on April 1, 2017, DMAS's Medicaid Addiction and Recovery Treatment Services (ARTS) will become available; and peer recovery supports, a component of ARTS, will be available on July 1, 2017. All community-based substance use disorder (SUD) services will be covered by managed care plans. The components of SUD services will be part of a fully integrated physical and behavioral health continuum of care and will 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 will be:

- Expand short-term SUD inpatient detox to all Medicaid/FAMIS members
- Expand short-term SUD residential treatment to all Medicaid members
- Increase rates for existing Medicaid/FAMIS SUD treatment services
- Add peer support services for individuals with SUD and/or mental health conditions
- Require SUD care coordinators at DMAS contracted managed care plans
- Provide provider education, training, and recruitment activities

ARTS network development and extensive training are scheduled to begin in January 2017.

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

In October 2015, 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 Board was one of eight Community Services Boards across the state selected to participate in this grant-funded planning process—Phase I. For Phase II, the demonstration phase, eight states will be selected from among the Phase I states to participate in a two-year demonstration program. During the demonstration phase (and presumably on an ongoing basis), CCBHCs will be financially incentivized through enhanced payments to support the provision of nine core high quality, comprehensive services.

After working extensively through the planning process, Virginia decided not to pursue the CCBHC demonstration grant. Dr. Jack Barber, Interim Commissioner of the DBHDS, wrote in a September 8, 2016, email that, *ultimately, the fact that the general fund costs to achieve the required levels of [CCBHC] service and access were essentially twice what the additional match could have collected, the fact that the additional federal match was just for two years, and the timing related to when funds would be available after the upcoming GA session versus the July 1[, 2017,] full implementation date were all significant factors. The additional reality of DMAS*

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needed to retool the reimbursement system in an equally short period of time and some uncertainty related to the impact of other DMAS reimbursement changes on the CCBHC PPS methodology contributed [to the decision not to move forward in applying for the CCBHC demonstration grant].

However, Virginia does want to use the significant knowledge gained during the CCBHC planning period to continue planning for a CCBHC-like Virginia model, to be called STEP-VA. Such a model will serve, in the words of Dr. Barber, as *a robust, consistent community system based upon the CCBHC model and the work of the Transformation Teams in order to improve access to robust community services that will be essential to reducing the morbidity and risk of those who are dependent upon the public mental health system for treatment and support.* The anticipation currently is that focus initially will be given to same-day access to services, weekend service hours, psychosocial rehabilitation, mobile engagement, outcomes-driven continuous quality improvement, and enhanced training.

Department of Labor Overtime Regulations

On May 18, 2016, President Obama revealed the Department of Labor's final rule updating the overtime regulations under the Fair Labor Standards Act (FLSA). The three changes to FLSA exemptions are:

- Increases the minimum annual salary for exempt employees from \$23,660 to \$47,476 (or from \$455 per week to \$913 per week).
- Increases the minimum annual salary for exempt highly compensated employees from \$100,000 to \$134,004.
- Automatically increases these thresholds every three years.

These changes will be effective December 1, 2016. In preparing to implement the new regulations, the Board contracted with a consulting company to conduct a thorough review of all Board positions and job descriptions. This review is resulting in reclassification of a number of staff from exempt to non-exempt (overtime eligible) and in salary increases for some other currently exempt staff that will remain exempt. The Board also is updating its timekeeping procedure to enhance the overtime approval process.

Board Program Growth

In addition to focusing on development and enhancement of services mentioned above relative to regional/special project funding, waiver redesign, ARTS, and STEP-VA, the Board is anticipating increases in net revenue in several programs during FY 2017. These programs include: adult mental health case management, youth intensive care coordination, adult and youth service facilitation, youth therapeutic day treatment, Program of Assertive Community Treatment (PACT), and adult mental health skill building.

Board Staff Compensation and Benefits

Despite the fact that the state is not providing incremental funding to CSBs in FY 2017 specifically for salary increases, MRCSB has budgeted a 2 percent across-the-board salary increase, effective

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October 1, 2016. Also, effective January 1, 2016, MRCSB transitioned from a self-insured health insurance program to The Local Choice (TLC). For many years, MRCSB had been partially self-funded for health insurance. Over the years, the self-insured program had experienced increased claims and higher renewal costs. TLC was created exclusively for local governments, authorities, school divisions, constitutional officers, groups designated by the General Assembly, and political subdivisions of the Commonwealth of Virginia. Launched in July 1990, the program is managed by the Commonwealth of Virginia's Department of Human Resource Management (DHRM), the same team of administrators that manage the State's employee health benefits program. In joining TLC, MRCSB became one of over 300 state-wide employer groups with a total of over 50,000 employees, retirees, and dependents covered. This size significantly increased the overall negotiating power of the plan. As a result, MRCSB saw a 13 percent reduction in anticipated health insurance premium costs for 2016, as compared to a projected 8 percent increase had MRCSB remained self-insured.

Industrial Development Centers

In the Industrial Development Centers (IDCs), various potential customers continue to tour the facilities and discuss development of new products with which the IDCs may be involved. One of the IDC's most significant customers, the United States Department of Defense, continues to generate a fair amount of business. While Department of Defense contracts for production of the Advanced Combat Shirt Type II have diminished, the IDCs do have a contract for a military chef's smock. IDC leadership remains involved with SourceAmerica, to maintain an awareness of current and upcoming federal government projects. In addition, during FY 2016, IDC engaged the services of an additional contract development resource. The IDCs continue to enjoy serving various companies within our service region, including Blue Ridge Beverage (Gatorade). The IDCs also continue to print products including T-shirts, tote bags, and medicine bags for Naloxene, a prescription medicine that reverses an opioid overdose. All of these various contracts provide employment to individuals with disabilities who receive services in the IDCs.

Board Facilities Projects

The Board is planning several construction/renovation projects in Smyth County during FY 2017 (and into FY 2018), including:

- The Board will be building a 7,000 square-foot facility on a section of property that borders Southwestern Virginia Mental Health Institute, in Marion, deeded to the Board over two years ago by the Commonwealth of Virginia. This property is contiguous to the next two facilities described. The facility to be constructed will be the Rhea B. Lawrence Recovery Center, a crisis stabilization unit providing eight beds for short-term sub-acute services for adult consumers. The Board also is planning for this Crisis Stabilization Unit to be equipped to house individuals placed under a Temporary Detention Order (TDO). The Board currently is in the design phase of this project. Preliminary cost estimates for this project are in the \$1,250,000-plus range.
- The Board will be renovating the Smyth Counseling Center, in Marion, and will likely build on some additional space. This 5,000 square-foot facility houses community counseling services for Smyth County. Preliminary estimates for this project (renovation only) are \$500,000.

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- The Board will be renovating the 3,000-square foot Friendship House facility, in Marion. Previously, this building housed the Board's Smyth County psychosocial rehabilitation therapy program. While previous ideas included converting this facility to flexible office and meeting space for various program opportunities in Smyth County, the Board now is considering the renovation to house a reestablished psychosocial rehabilitation (PSR) program in Smyth County (at least two additional PSR sites will need to be identified to serve Wythe and Bland counties and to serve Carroll and Grayson Counties and the city of Galax). Preliminary cost estimates for the Friendship House renovation project are in the \$250,000 range.

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

Request for Information

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Statement of Net Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
<u>Assets and Deferred Outflows of Resources</u>		
Current assets:		
Cash and cash equivalents	\$ 15,658,812	\$ 10,597,375
Accounts receivable (net of allowance for doubtful accounts)	2,481,584	3,691,940
Prepaid expenses	43,613	158,004
Other receivables	17,290	111,291
Inventories	340,989	1,035,459
Interest receivable	970	1,033
Current portion of note receivable	10,000	-
Total current assets	<u>\$ 18,553,258</u>	<u>\$ 15,595,102</u>
Restricted current assets:		
Cash and cash equivalents - restricted	\$ 143,818	\$ 60,588
Restricted investments	337,102	444,841
Restricted assets - held in trust	66,594	65,774
Total restricted current assets	<u>\$ 547,514</u>	<u>\$ 571,203</u>
Capital assets (net of accumulated depreciation)	<u>\$ 13,310,917</u>	<u>\$ 12,390,121</u>
Other assets:		
Long-term portion of note receivable	<u>\$ 27,500</u>	<u>\$ -</u>
Total assets	<u>\$ 32,439,189</u>	<u>\$ 28,556,426</u>
Deferred Outflows of Resources:		
Pension contributions subsequent to measurement date	<u>\$ 1,535,193</u>	<u>\$ 1,535,052</u>
Total assets and deferred outflows of resources	<u>\$ 33,974,382</u>	<u>\$ 30,091,478</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 838,714	\$ 1,766,468
Accrued interest payable	96,746	98,544
Accrued liabilities	13,326	7,889
Unearned revenues	3,654,425	1,488,366
Accrued payroll	119,585	167,104
General note obligations, current obligations	491,682	103,906
Total current liabilities	<u>\$ 5,214,478</u>	<u>\$ 3,632,277</u>
Long-term Liabilities:		
Compensated absences	\$ 1,850,348	\$ 1,779,465
Net pension liability	6,448,461	6,965,433
General note obligations, net of current obligations	5,798,376	4,594,617
Liability for funds held in trust	66,594	65,774
Total long term liabilities	<u>\$ 14,163,779</u>	<u>\$ 13,405,289</u>
Total liabilities	<u>\$ 19,378,257</u>	<u>\$ 17,037,566</u>
Deferred Inflows of Resources		
Items related to measurement of net pension liability	<u>\$ 1,613,742</u>	<u>\$ 1,545,189</u>
Net Position:		
Net investment in capital assets	\$ 7,020,859	\$ 7,691,598
Restricted	397,690	505,429
Unrestricted	5,563,834	3,311,696
Total net position	<u>\$ 12,982,383</u>	<u>\$ 11,508,723</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 33,974,382</u>	<u>\$ 30,091,478</u>

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
Operating revenues:		
Medicaid/Medicare fees	\$ 27,163,600	\$ 26,633,415
Contract sales	7,555,864	11,022,835
Client, insurance and other fees	2,908,664	2,455,639
Contributions	7,018	8,657
Housing assistance payments	16,527	17,049
Health care benefit payments	86,519	70,764
Other income	493,616	696,051
	<hr/>	<hr/>
Total operating revenues	\$ 38,231,808	\$ 40,904,410
	<hr/>	<hr/>
Operating expenses:		
Personnel	\$ 26,102,777	\$ 27,151,666
Staff Development	118,808	71,887
Facilities	1,418,570	1,503,633
Equipment/Supplies	4,904,490	7,028,506
Travel	899,666	990,487
Contract services	13,014,784	13,040,794
Miscellaneous	411,151	406,472
Depreciation	807,438	838,397
	<hr/>	<hr/>
Total operating expenses	\$ 47,677,684	\$ 51,031,842
	<hr/>	<hr/>
Operating income (loss)	\$ (9,445,876)	\$ (10,127,432)
	<hr/>	<hr/>
Nonoperating revenue (expense):		
Interest income	\$ 89,558	\$ 64,450
Interest expense	(350,155)	(291,096)
Gain (loss) on sale/disposal of assets	28,530	(13,440)
Intergovernmental revenues:		
Commonwealth of Virginia	9,361,780	9,349,125
Federal Government	1,243,318	1,086,582
Local Governments	546,505	557,405
	<hr/>	<hr/>
Total nonoperating revenue (expense)	\$ 10,919,536	\$ 10,753,026
	<hr/>	<hr/>
Change in net position	\$ 1,473,660	\$ 625,594
	<hr/>	<hr/>
Net position, beginning of year	11,508,723	10,883,129
	<hr/>	<hr/>
Net position, end of year	\$ 12,982,383	\$ 11,508,723
	<hr/>	<hr/>

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from individuals served and users	\$ 45,635,613	\$ 45,383,013
Cash paid to suppliers for goods and services	(14,990,437)	(17,874,207)
Cash paid to employees and for benefits	(38,517,910)	(37,095,549)
Net cash provided by (used for) operating activities	<u>\$ (7,872,734)</u>	<u>\$ (9,586,743)</u>
Cash flows from noncapital financing activities:		
Intergovernmental revenues	<u>\$ 13,317,662</u>	<u>\$ 11,137,511</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (1,766,122)	\$ (444,591)
Proceeds from sale of assets	66,419	-
Withdrawals from reserve accounts	307,136	4,975
Principal payments on borrowed funds	(408,465)	(96,317)
Principal advances on borrowed funds	2,000,000	-
Payments to reserve/investment accounts	(282,627)	(7,881)
Due to/from employee	-	1,000
Principal payments on notes receivable	7,500	-
Interest expense	(351,953)	(292,789)
Net cash provided by (used for) capital and related financing activities	<u>\$ (428,112)</u>	<u>\$ (835,603)</u>
Cash flows from investing activities:		
Interest income	<u>\$ 89,621</u>	<u>\$ 64,441</u>
Net cash provided by (used for) investing activities	<u>\$ 89,621</u>	<u>\$ 64,441</u>
Net increase (decrease) in cash	\$ 5,106,437	\$ 779,606
Cash and cash equivalents - beginning of year	<u>10,657,963</u>	<u>9,878,357</u>
Cash and cash equivalents - end of year	<u><u>\$ 15,764,400</u></u>	<u><u>\$ 10,657,963</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (9,445,876)	\$ (10,127,432)
Adjustments to reconcile to operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	807,438	838,397
Changes in:		
Accounts payable	(927,755)	132,242
Inventories	694,470	(105,837)
Accounts receivable	1,210,356	43,341
Prepaid expenses	114,391	(164,359)
Other receivables	94,001	-
Deferred outflows of resources	(141)	477,543
Accrued payroll and compensated absences	23,364	83,923
Accrued liabilities	5,437	2,804
Net pension liability	(516,972)	(2,312,554)
Deferred inflows of resources	68,553	1,545,189
Net cash provided by (used for) operating activities	<u><u>\$ (7,872,734)</u></u>	<u><u>\$ (9,586,743)</u></u>

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies

- A. Organization – The Mount Rogers Community Services Board (Board) is a local government agency established under Chapter 5 of Title 37.2 of the Code of Virginia to implement and operate community mental health, mental retardation, and substance abuse programs in the Virginia counties of Bland, Carroll, Grayson, Smyth, and Wythe, and the City of Galax. The Board is made up of representatives of those jurisdictions. The Board is charged by the Virginia Department of Behavioral Health and Developmental Services with providing a system of comprehensive community mental health, intellectual disabilities, and substance use services which relate to and are integrated with existing and planned programs within the limits of aforesaid jurisdictional boundaries. The Board currently provides these services through the operation of mental health clinics, industrial and developmental centers, residential programs, and substance use programs throughout the program area.
- B. Financial Reporting Entity – The 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.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

1. Summary of Significant Accounting Policies - Continued

- 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 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.

- D. Net Position – Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- E. Net Position Flow Assumption - Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as “restricted – net position” and “unrestricted – net position” in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.
- F. Inventory – The Board recognizes inventory at lower of cost or market. Inventory is priced using the FIFO method. Inventory consists of raw materials, work-in-process and finished goods for the manufacturing process at the Industrial Development Centers.
- G. 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:
- | | |
|--------------------------------|--------------|
| | <u>Years</u> |
| Buildings | 40 years |
| Leasehold improvements | 15 years |
| Office furniture and equipment | 3-5 years |
| Vehicles | 3-5 years |
- H. Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

1. Summary of Significant Accounting Policies – Continued

- I. Net Client Service Revenue – Net client service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net client service revenue as are charges for charity services. Retroactive adjustments, if any, are reported in operations in the year of settlement.
- J. Cash and Cash Equivalents – For purposes of the statement of cash flows, Mount Rogers Community Services Board considers all highly liquid debt instruments purchased with an original maturity of three months or less from the date of acquisition to be cash equivalents.
- K. Financial Assistance and Allowance for Uncollectible Accounts – The 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 \$704,233 for 2016 and \$719,964 for 2015.

- L. Income Taxes – As a political subdivision of the Commonwealth of Virginia, the Board is exempt from federal and state income taxes.
- M. Advertising – Advertising costs are charged to operations when incurred.
- N. Risk Management – The Board is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Workman's Compensation Insurance is provided through the Virginia Association of Counties 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.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

1. Summary of Significant Accounting Policies - Continued

N. Risk Management-Continued

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 meeting 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.

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

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

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

1. Summary of Significant Accounting Policies – Continued

- 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 financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board only has one item which qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The deferred outflows of resources as of June 30, 2016 totaled \$1,535,193.
- In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item which qualified for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. The deferred inflows of resources as of June 30, 2016 totaled \$1,613,742.
- 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. The Board's money market investments that have a remaining maturity at the time of purchase of one year or less are measured at amortized costs.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

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 Community Services 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 funds rated debt investments as of June 30, 2016 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Rated Investment Type</u>	<u>Fair Quality Ratings</u>		<u>Total</u>
	<u>AAAm</u>	<u>Unrated</u>	
Money Market	\$ 337,102	\$ -	\$ 337,102

Custodial Credit Risk - For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Community Services Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds are not considered to have custodial credit risk. The Community Services 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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than</u>
		<u>1 year</u>
Money Market	\$ 337,102	\$ 337,102

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

3. Capital Assets

A summary of capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 666,540	\$ 20,000	\$ -	\$ 686,540
Construction in Progress	<u>104,730</u>	<u>265,795</u>	<u>-</u>	<u>370,525</u>
Total non-depreciable assets	\$ <u>771,270</u>	\$ <u>285,795</u>	\$ <u>-</u>	\$ <u>1,057,065</u>
Depreciable assets:				
Buildings and Improvements	\$ 16,448,787	\$ 371,610	\$ 980	\$ 16,819,417
Equipment and Vehicles	<u>4,449,555</u>	<u>1,108,718</u>	<u>390,970</u>	<u>5,167,303</u>
Total depreciable assets	\$ <u>20,898,342</u>	\$ <u>1,480,328</u>	\$ <u>391,950</u>	\$ <u>21,986,720</u>
Accumulated Depreciation:				
Buildings and Improvements	\$ (5,408,244)	\$ (521,323)	\$ 980	\$ (5,928,587)
Equipment and Vehicles	<u>(3,871,247)</u>	<u>(286,115)</u>	<u>353,081</u>	<u>(3,804,281)</u>
Total accumulated Depreciation	\$ <u>(9,279,491)</u>	\$ <u>(807,438)</u>	\$ <u>354,061</u>	\$ <u>(9,732,868)</u>
Net depreciable assets	\$ <u>11,618,851</u>	\$ <u>672,890</u>	\$ <u>37,889</u>	\$ <u>12,253,852</u>
Total net capital assets	\$ <u>12,390,121</u>	\$ <u>958,685</u>	\$ <u>37,889</u>	\$ <u>13,310,917</u>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

4. Local Government Revenue

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

	<u>2016</u>	<u>2015</u>
Bland County	\$ 27,000	\$ 26,500
Carroll County	130,500	145,000
City of Galax	34,983	34,983
Grayson County	51,000	51,000
Smyth County	166,022	166,022
Wythe County	<u>137,000</u>	<u>133,900</u>
	<u>\$ 546,505</u>	<u>\$ 557,405</u>

5. Long-term Obligations

A summary of long-term obligations follows:

	<u>Beginning Balance</u>	<u>Issuance/ Additions</u>	<u>Retirement/ Deletions</u>	<u>Ending Balance</u>	<u>Amount Current</u>
IDA of the County of Stafford and the City of Staunton Rural Development note Payable	\$ 3,630,000	\$ -	\$ 65,000	\$ 3,565,000	\$ 70,000
Virginia Housing Development Note payable	941,850	-	18,586	923,264	19,512
First Bank & Trust Note Payable	126,673	-	20,251	106,422	22,111
Compensated absences	-	2,000,000	304,628	1,695,372	380,059
	<u>1,779,465</u>	<u>70,883</u>	<u>-</u>	<u>1,850,348</u>	<u>-</u>
Total	<u>\$ 6,477,988</u>	<u>\$ 2,070,883</u>	<u>\$ 408,465</u>	<u>\$ 8,140,406</u>	<u>\$ 491,682</u>

A detail summary of long-term obligations follows:

	<u>2016</u>	<u>2015</u>
Industrial Development Authority of the County of Stafford and the City of Staunton Virginia, \$4,000,000 Series A bonds, issued February 28, 2008, Variable principal reductions and interest at 6.5% is due semi-annually. Bonds mature August 2038, secured by real estate.	\$ 3,565,000	\$3,630,000
Rural Development, initialized August 8, 2002, monthly principal and interest reductions totaling \$5,049 beginning August 8, 2004, interest only payments due for first two years, 4.5% interest rate, maturing August 8, 2038, secured by real estate	923,264	941,850
First Bank and Trust, unsecured note dated August 14, 2015, monthly principal and interest reductions totaling \$37,064 interest rate of 4.25%, maturing August 14, 2020.	1,695,372	-

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

5. Long-term Obligations (Continued)

A detail summary of long-term obligations follows (continued):	<u>2016</u>	<u>2015</u>
Virginia Housing Development Authority mortgage note payable, 8.82% interest, monthly installments of \$2,551, Maturity August 1, 2020 secured by real estate	<u>106,422</u>	<u>126,673</u>
Total	<u>\$ 6,290,058</u>	<u>\$ 4,698,523</u>

Annual Requirements to Amortize Long-Term Obligations:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	491,682	343,740
2018	516,081	319,629
2019	541,419	294,252
2020	567,752	267,558
2021	191,802	143,468
2022-2026	678,871	1,131,719
2027-2031	917,580	895,861
2032-2036	1,264,775	571,065
2037-2041	1,075,256	148,569
2042	<u>44,840</u>	<u>709</u>
Total	<u>\$ 6,290,058</u>	<u>\$ 4,116,570</u>

6. Compensated Absences

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

Employees with up to six months of service earn annual leave at the rate of 7.5 hours per month. Employees with six months to five years of service earn annual leave at the rate of 10.625 hours per month. For employee service greater than five years but less than ten years time is earned at a rate of 14.375 hours per month. After ten years, annual leave is earned by the employee at a rate of 16.375 hours per month. Annual leave is accrued up to 21 days and is paid upon termination or retirement. Employees accrue sick leave at the rate of 11.25 hours per month. Accumulation of sick leave is unlimited during continued employment. Upon separation from the Board's employment, employees with at least five consecutive years of full time employment will be eligible to receive a one-time cash payment for unused sick leave. This sick leave payout is the lesser of 25% of the unused sick leave balance or the following amounts: five year service is a maximum payout of \$1,500; ten year service is a maximum payout of \$3,000; fifteen year service is a maximum payout of \$4,500; twenty year service is a maximum payout of \$6,000; twenty five year service is a maximum payout of \$7,500 and a thirty plus service is a maximum payout of \$9,000.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

6. Compensated Absences (Continued)

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

Employees who were hired on or after January 1, 2014 will earn paid time off (PTO) at a rate of 12.5 hours per month during the first year of employment through the fifth year of employment. For employees with service greater than five years but less than ten years of time will earn 14.38 hours per month. After ten years, time will accrue at a rate of 16.25 hours per month. Accumulation of PTO time is limited to 75 hours for the first five years of employment, 86.5 hours for the sixth through the tenth year, and 98 hours for eleven years and beyond. PTO time is accrued up to 21 days and is paid upon termination or retirement.

The Mount Rogers Community Services Board has outstanding accrued vacation pay that totals \$1,018,517, sick leave accrual of \$726,378 and PTO accrual of \$105,453 as of June 30, 2016. At June 30, 2015 the outstanding accrued vacation pay totaled \$1,022,578, sick leave outstanding of \$694,999 and PTO time outstanding of \$61,888.

7. Surety Bond

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

8. Leased Facilities

All facilities utilized by the Board are reflected as operating leases in the financial statements. The annual lease payments on all facilities totaled \$165,457 in 2016 and \$183,849 in fiscal year 2015.

9. Unearned Revenue

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

	<u>2016</u>	<u>2015</u>
Money is received from federal and state agencies in advance of the expenditure. All monies restricted for a specific purpose are carried over into the next fiscal year.	\$ 3,647,303	\$ 1,481,148
The Board is accepting contributions and accumulating funds for the construction of a Veteran's Memorial. These contributions are restricted for the purpose of the memorial and revenue will be deferred until at what time the total obligation of the memorial has been met.	926	537

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

9. Unearned Revenue (Continued)

	<u>2016</u>	<u>2015</u>
Money is received from individuals and third-party insurance companies for services provided. If an individual pre-pays for a service or money is received by the Board in error, these funds are accumulated until such time they can be refunded or applied to an account for payment on services	<u>6,196</u>	<u>6,681</u>
	<u>\$ 3,654,425</u>	<u>\$ 1,488,366</u>

10. Contingent Liabilities

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

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

11. Restricted Assets – Held in Trust

The Board manages several individual client funds. The Board segregates these monies held on behalf of the individuals served and considers them as a fiduciary responsibility. These funds are shown as an asset titled “restricted asset – held in trust” and is reflected as a liability titled “liability for funds held in trust.” These accounts totaled \$66,594 at June 30, 2016 and \$65,774 at June 30, 2015.

12. 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, 2016 and 2015, an amount of \$60,588 has been reflected as restricted cash for this purpose.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan

Plan Description

All full-time, salaried permanent employees of Mount Rogers Community Service Board are automatically covered by VRS Retirement Plan 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 duty 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 PROVISION		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>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. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • 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.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION – Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1:</p>	<p>About Plan 2:</p>	<p>About the Hybrid Retirement Plan - continued</p> <ul style="list-style-type: none"> 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
<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service	Creditable Service	Creditable Service - continued <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.</p> <p>Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.</p> <p>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.</p> <p><u>Defined Contributions Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting	Vesting	Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> • 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 <u>Defined Benefit Component:</u> See definition under Plan 1 The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
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.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>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.</p>	<p>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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • 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). 	<p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: - (Cont)</u></p> <ul style="list-style-type: none"> • 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. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>
<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Plan Description (Continued)

RETIREMENT PLAN PROVISION - Continued		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, VA 23218-2500.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Employees Covered by Benefit Terms:

As of June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	34
Inactive members:	
Vested inactive members	25
Non-vested inactive members	40
Inactive members active elsewhere in VRS	<u>18</u>
Total inactive members	83
Active members	<u>492</u>
Total covered employees	<u><u>609</u></u>

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, 2016 was 7.90% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan for the Community Service Board were \$1,535,193 and \$1,535,052 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability:

The Board's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

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, 2014, 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, 2015.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Actuarial Assumptions – General Employees - continued

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

Long-Term Expected Rate of Return

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

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

Long-Term Expected Rate of Return (Continued)

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

Discount Rate:

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

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.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at June 30, 2014	\$ 33,299,920	\$ 26,334,487	\$ 6,965,433
Changes for the year:			
Service Cost	2,052,217		2,052,217
Interest	2,300,997		2,300,997
Differences between expected and actual experience	(1,120,054)		(1,120,054)
Contributions - employer		1,534,637	(1,534,637)
Contributions - employee		971,352	(971,352)
Net investment income		1,259,817	(1,259,817)
Benefit payments, including refunds of employee contributions	(857,080)	(857,080)	
Administrative expense		(15,399)	15,399
Other changes		(275)	275
Net changes	\$ 2,376,080	\$ 2,893,052	\$ (516,972)
Balances at June 30, 2015	\$ 35,676,000	\$ 29,227,539	\$ 6,448,461

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. 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		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Board's Net Pension Liability	\$ 12,028,649	\$ 6,448,461	\$ 1,885,101

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

For the year ended June 30, 2016, the Board recognized pension expense of \$1,086,218. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 0	\$ 967,458
Changes in assumptions	0	0
Net difference between projected and actual earnings on plan investments	0	646,284
Employer contributions subsequent to the measurement date	<u>1,535,193</u>	<u>0</u>
Total	<u>\$ 1,535,193</u>	<u>\$ 1,613,742</u>

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

13. Pension Plan – Continued

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

The \$1,535,193 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30		
2017		\$(410,741)
2018		(410,741)
2019		(410,742)
2020		(24,444)
2021		(152,596)
Thereafter		(152,596)

14. Litigation

At June 30, 2016, 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.

15. 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 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 and zero interest.

16. Subsequent Events

On July 14, 2016, the Board purchased property in Galax, Virginia for \$149,000.

17. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*

The Board implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the Board to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Board's financial statements as a result of the implementation of Statement No. 72. All required disclosures are located in Note 2.

MOUNT ROGERS COMMUNITY SERVICES BOARD
Notes to Financial Statements (Continued)
June 30, 2016

17. Adoption of Accounting Principles (Continued)

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Board early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Mount Rogers Community Services Board

Schedule of Components of and Changes in Net Pension Liability and Related Ratios For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 2,052,217	\$ 2,029,879
Interest	2,300,997	2,063,206
Changes of benefit terms	-	-
Differences between expected and actual experience	(1,120,054)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(857,080)	(535,063)
Net change in total pension liability	\$ 2,376,080	\$ 3,558,022
Total pension liability - beginning	33,299,920	29,741,898
Total pension liability - ending (a)	\$ 35,676,000	\$ 33,299,920
Plan fiduciary net position		
Contributions - employer	\$ 1,534,637	\$ 2,012,595
Contributions - employee	971,352	960,348
Net investment income	1,259,817	3,448,725
Benefit payments, including refunds of employee contributions	(857,080)	(535,063)
Administrative expense	(15,399)	(16,211)
Other	(275)	182
Net change in plan fiduciary net position	\$ 2,893,052	\$ 5,870,576
Plan fiduciary net position - beginning	26,334,487	20,463,911
Plan fiduciary net position - ending (b)	\$ 29,227,539	\$ 26,334,487
Board's net pension liability - ending (a) - (b)	\$ 6,448,461	\$ 6,965,433
Plan fiduciary net position as a percentage of the total pension liability	81.92%	79.08%
Covered payroll	\$ 19,578,839	\$ 19,099,555
Board's net pension liability as a percentage of covered-employee payroll	32.94%	36.47%

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

Mount Rogers Community Services Board

Schedule of Employer Contributions For the Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	\$ 1,554,293	\$ 1,554,293	\$ -	\$ 19,674,596	7.90%
2015	1,535,052	1,535,052	-	19,578,839	7.84%
2014	2,013,093	2,013,093	-	19,099,555	10.54%
2013	1,969,930	1,969,930	-	18,690,039	10.54%
2012	2,145,128	2,145,128	-	16,654,717	12.88%
2011	1,976,521	1,976,521	-	15,345,660	12.88%
2010	489,411	489,411	-	3,799,774	12.88%

Schedule is intended to show information for 10 years, however, the Board did not begin participation in VRS until 2010.

Mount Rogers Community Services Board

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the the impact on the liabilities as of the measurement date of June 30, 2015 are minimal.

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

Largest 10 – Non-LEOS:

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

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

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

MOUNT ROGERS COMMUNITY SERVICES BOARD
Combining Statement of Net Position
June 30, 2016

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 14,655,578	\$ 1,003,231	\$ 3	\$ -	\$ 15,658,812
Accounts receivable (net of allowance for doubtful accounts)	2,481,584	-	-	-	2,481,584
Prepaid expenses	43,613	-	-	-	43,613
Other receivables	17,290	40	-	(40)	17,290
Inventories	340,989	-	-	-	340,989
Current portion of note receivable	10,000	-	-	-	10,000
Interest receivable	970	-	-	-	970
Total current assets	\$ 17,550,024	\$ 1,003,271	\$ 3	\$ (40)	\$ 18,553,258
Restricted current assets:					
Cash and cash equivalents - restricted	\$ 60,588	\$ -	\$ 83,230	\$ -	\$ 143,818
Restricted investments	337,102	-	-	-	337,102
Restricted assets - held in trust	66,594	-	-	-	66,594
Total restricted current assets	\$ 464,284	\$ -	\$ 83,230	\$ -	\$ 547,514
Capital assets (net of accumulated depreciation)	\$ 12,567,125	\$ -	\$ 743,792	\$ -	\$ 13,310,917
Other Assets:					
Long-term portion of note receivable	\$ 27,500	\$ -	\$ -	\$ -	\$ 27,500
Total assets	\$ 30,608,933	\$ 1,003,271	\$ 827,025	\$ (40)	\$ 32,439,189
Deferred Outflows of Resources					
Pension contributions subsequent to measurement date	\$ 1,535,193	\$ -	\$ -	\$ -	\$ 1,535,193
Total assets and deferred outflows of resources	\$ 32,144,126	\$ 1,003,271	\$ 827,025	\$ (40)	\$ 33,974,382
Liabilities					
Current Liabilities:					
Accounts payable	\$ 719,951	\$ 116,457	\$ 2,306		\$ 838,714
Accrued interest payable	96,360	-	386	-	96,746
Accrued liabilities	13,366	-	-	(40)	13,326
Unearned revenues	3,654,425	-	-	-	3,654,425
Accrued payroll	119,585	-	-	-	119,585
General note obligations, current obligations	469,571	-	22,111	-	491,682
Total current liabilities	\$ 5,073,258	\$ 116,457	\$ 24,803	\$ (40)	\$ 5,214,478
Long-term Liabilities:					
Compensated absences	\$ 1,850,348	\$ -	\$ -	\$ -	\$ 1,850,348
Net pension liability	6,448,461	-	-	-	6,448,461
General note obligations, net of current obligations	5,714,065	-	84,311	-	5,798,376
Liability for funds held in trust	66,594	-	-	-	66,594
Total long term liabilities	\$ 14,079,468	\$ -	\$ 84,311	\$ -	\$ 14,163,779
Total liabilities	\$ 19,152,726	\$ 116,457	\$ 109,114	\$ (40)	\$ 19,378,257
Deferred Inflows of Resources					
Items related to measurement of net pension liability	\$ 1,613,742	\$ -	\$ -	\$ -	\$ 1,613,742
Net Position:					
Net investment in capital assets	\$ 6,383,489	\$ -	\$ 637,370	\$ -	\$ 7,020,859
Restricted	397,690	-	-	-	397,690
Unrestricted	4,596,479	886,814	80,541	-	5,563,834
Total net position	\$ 11,377,658	\$ 886,814	\$ 717,911	\$ -	\$ 12,982,383
Total liabilities, deferred inflows of resources and net position	\$ 32,144,126	\$ 1,003,271	\$ 827,025	\$ (40)	\$ 33,974,382

MOUNT ROGERS COMMUNITY SERVICES BOARD
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Inter-Company Eliminations	Total
Operating revenues:					
Medicaid/Medicare fees	\$ 27,163,600	\$ -	\$ -	\$ -	\$ 27,163,600
Contract sales	7,555,864	-	-	-	7,555,864
Client, insurance and other fees	2,909,786	19,608	-	(20,730)	2,908,664
Contributions	2,600	4,418	-	-	7,018
Housing assistance payments	-	-	16,527	-	16,527
Health care benefit payments	-	6,139,946	-	(6,053,427)	86,519
Other income	458,627	-	60,280	(25,291)	493,616
Total operating revenues	\$ 38,090,477	\$ 6,163,972	\$ 76,807	\$ (6,099,448)	\$ 38,231,808
Operating expenses:					
Personnel	\$ 32,176,934	\$ -	\$ -	\$ (6,074,157)	\$ 26,102,777
Staff Development	118,808	-	-	-	118,808
Facilities	1,398,188	-	20,382	-	1,418,570
Equipment/Supplies	4,901,554	-	2,936	-	4,904,490
Travel	898,676	-	990	-	899,666
Contract services	7,625,646	5,381,638	12,791	(5,291)	13,014,784
Miscellaneous	413,853	16,513	785	(20,000)	411,151
Depreciation	780,960	-	26,478	-	807,438
Total operating expenses	\$ 48,314,619	\$ 5,398,151	\$ 64,362	\$ (6,099,448)	\$ 47,677,684
Operating income (loss)	\$ (10,224,142)	\$ 765,821	\$ 12,445	\$ -	\$ (9,445,876)
Nonoperating revenue (expense):					
Interest income	\$ 87,110	\$ 2,403	\$ 45	\$ -	\$ 89,558
Interest expense	(340,125)	-	(10,030)	-	(350,155)
Gain (loss) on sale/disposal of assets	28,530	-	-	-	28,530
Intergovernmental revenues:					
Commonwealth of Virginia	9,361,780	-	-	-	9,361,780
Federal Government	1,243,318	-	-	-	1,243,318
Local Governments	546,505	-	-	-	546,505
Total nonoperating revenue (expense)	\$ 10,927,118	\$ 2,403	\$ (9,985)	\$ -	\$ 10,919,536
Change in net position	\$ 702,976	\$ 768,224	\$ 2,460	\$ -	\$ 1,473,660
Net position, beginning of year	10,674,682	118,590	715,451	-	11,508,723
Net position, end of year	\$ 11,377,658	\$ 886,814	\$ 717,911	\$ -	\$ 12,982,383

MOUNT ROGERS COMMUNITY SERVICES BOARD
Combining Statement of Cash Flows
For the Year Ended June 30, 2016

	Mount Rogers Community Services Board	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
Cash flows from operating activities:				
Receipts from individuals served and users	\$ 39,394,834	\$ 6,163,972	\$ 76,807	\$ 45,635,613
Cash paid to suppliers for goods and services	(14,940,169)	(16,526)	(33,742)	(14,990,437)
Cash paid to employees and for benefits	(32,599,580)	(5,918,330)	-	(38,517,910)
Net cash provided by (used for) operating activities	\$ (8,144,915)	\$ 229,116	\$ 43,065	\$ (7,872,734)
Cash flows from noncapital financing activities:				
Intergovernmental revenues	\$ 13,317,662	\$ -	\$ -	\$ 13,317,662
Cash flows from capital and related financing activities:				
Purchase of capital assets	\$ (1,750,762)	\$ -	\$ (15,360)	\$ (1,766,122)
Proceeds from sale of assets	66,419	-	-	66,419
Withdrawals from reserve accounts	300,636	-	6,500	307,136
Principal payments on borrowed funds	(388,214)	-	(20,251)	(408,465)
Interest payments on borrowed funds	(341,850)	-	(10,103)	(351,953)
Principal advances on borrowed funds	2,000,000	-	-	2,000,000
Payments to reserve/investment accounts	(278,669)	-	(3,958)	(282,627)
Note taken for sale of equipment	(45,000)	-	-	(45,000)
Principal payments on note receivable	7,500	-	-	7,500
Net cash provided by (used for) capital and related financing activities:	\$ (429,940)	\$ -	\$ (43,172)	\$ (473,112)
Cash flows from investing activities:				
Interest income	\$ 87,173	\$ 2,403	\$ 45	\$ 89,621
Net increase (decrease) in cash	\$ 4,829,980	\$ 231,519	\$ (62)	\$ 5,061,437
Cash and cash equivalents - beginning of year	9,886,186	771,712	65	10,657,963
Cash and cash equivalents - end of year	\$ 14,716,166	\$ 1,003,231	\$ 3	\$ 15,719,400
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (10,224,142)	\$ 765,821	\$ 12,445	\$ (9,445,876)
Adjustments to reconcile to operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	780,960	-	26,478	807,438
Changes in:				
Accounts payable	(386,675)	(542,322)	1,242	(927,755)
Inventories	694,470	-	-	694,470
Accounts receivable	1,210,356	-	-	1,210,356
Prepaid expenses	108,761	5,630	-	114,391
Prepays and other receivables	94,001	-	-	94,001
Deferred outflows of resources	(141)	-	-	(141)
Accrued payroll and compensated absences	23,364	-	-	23,364
Accrued liabilities	2,550	(13)	2,900.00	5,437
Pension liability	(516,972)	-	-	(516,972)
Deferred inflows of resources	68,553	-	-	68,553
Net cash provided by (used for) operating activities	\$ (8,144,915)	\$ 229,116	\$ 43,065	\$ (7,872,734)

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Mount Rogers Community Services Board as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Mount Rogers Community Services Board's basic financial statements and have issued our report thereon dated November 21, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Co. Associates

Blacksburg, Virginia
November 21, 2016

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Mount Rogers Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Mount Rogers Community Services Board's major federal programs for the year ended June 30, 2016. Mount Rogers Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Mount Rogers Community Services Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Mount Rogers Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Mount Rogers Community Services Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Mount Rogers Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mount Rogers Community Services Board's

internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Mount Rogers Community Services Board's internal control over compliance.

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

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

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

Robinson, Turner, & Associates

Blacksburg, Virginia
November 21, 2016

MOUNT ROGERS COMMUNITY SERVICES BOARD
Schedule of Expenditures of Federal Awards
For Year Ended June 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services: Pass Through:			
Department of Behavioral Health Services: Block Grants for Community Mental Health Services	93.958	Unknown	\$ 233,706
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Unknown	650,470
Demonstration Programs to Improve Community Mental Health Services	93.829	Unknown	<u>88,517</u>
Total Department of Health and Human Services			\$ <u>972,693</u>
Department of Transportation: Direct:			
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513	N/A	\$ <u>172,636</u>
Department of Education: Pass Through:			
Virginia Department of Education: Special Education – Grants for Infants and Families	84.181	N/A	\$ <u>97,989</u>
Total Expenditures of Federal Awards			\$ <u>1,243,318</u>

Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Board under programs of the federal government for the year ended June 30, 2016. 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 assets, or cash flows of the Board.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers were not available.

Note C – Subrecipients

No awards were passed through to subrecipients.

MOUNT ROGERS COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

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

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR Section 200.516 (a) No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

93.959

Block Grants for Prevention and
Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as a low risk auditee? Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Findings and Questioned Costs

None