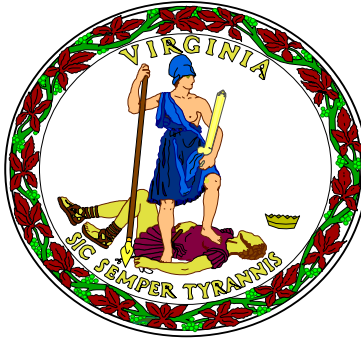


# Commonwealth of Virginia

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Department of Mental Health, Mental Retardation and  
Substance Abuse Services

## Annual Financial Report Fiscal Year 2004



James S. Reinhard, M.D.  
Commissioner

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Written and Published by the  
Division of Finance and Administration  
Office of Financial Reporting and Compliance

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*Mission Statement Department of Mental Health, Mental Retardation, and Substance Abuse Services:*

*“We provide leadership and service to improve Virginia’s system of quality treatment, habilitation, and prevention services for individuals and their families whose lives are affected by mental illness, mental retardation, or substance use disorders. We seek to promote dignity, choice, recovery, and the highest possible level of participation in work, relationships, and all aspects of community life for these individuals.”*

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## **TRANSMITTAL LETTER**

We are pleased to provide the Annual Financial Report of the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department") for the fiscal year ended June 30, 2004. This report contains informative financial and statistical data about the Department. This report is also available on the Department's web page ([www.dmhmrzas.virginia.gov](http://www.dmhmrzas.virginia.gov)).

Since 1987, the Department has produced annual financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements for the fiscal year ended June 30, 2004 are presented in accordance with the enterprise fund model as required by Governmental Accounting Standards Board (GASB) Statement Number 34. The use of GAAP requires use of estimates and accruals to match revenues in the period earned and expenses in the period incurred. Readers should note that this report has not been prepared on the budgetary basis of accounting, a cash basis of accounting. Under the cash basis of accounting, revenues and expenditures are recorded at the time cash is actually received or disbursed according to the provisions of the Appropriation Act. Above all else, the financial report represents the Department's commitment to the accurate financial reporting of its activities.

James S. Reinhard, M.D.  
Commissioner

Joy Yeh, CPA, Ph.D.  
Assistant Commissioner  
Finance and Administration  
October 29, 2004

**Mark R. Warner**  
**Governor, Commonwealth of Virginia**

**Jane H. Woods**  
**Secretary of Health and Human Resources**

**James S. Reinhard, M.D.**  
**Commissioner**

**STATE BOARD MEMBERS (June 2004)**

*Norfolk, Virginia*  
*Ruth G. Jarvis*

*Richmond, Virginia*  
*B. Hunt Gunter*  
*Acting Chair*

*Roanoke, Virginia*  
*David B. Trinkle*

*Charlottesville, Virginia*  
*Virginia R. Dofflemyer*

*Farnham, Virginia*  
*Linda S. Bartlett*

*Clincho, Virginia*  
*Garnett Robinson*

*Blacksburg, Virginia*  
*Victoria Huber Cochran*

*Richmond, Virginia*  
*Marlene Butler*  
*Board Secretary*

*Springfield, Virginia*  
*Elaine McConnell*

*Roanoke, Virginia*  
*Daniel E. Karnes*

**SENIOR MANAGEMENT TEAM**

*Gerald E. Deans*  
*Assistant Commissioner*  
*Facility Operations*

*Raymond R. Ratke*  
*Deputy Commissioner*

*Julie A. Stanley, J.D.*  
*Assistant Commissioner Admin*  
*and Regulatory Compliance*

*Frank L. Tetrick, III*  
*Assistant Commissioner*  
*Community Services*

*Joy Yeh, CPA, Ph.D.*  
*Assistant Commissioner*  
*Finance and Administration*

*James L. Evans, M.D.*  
*Medical Director*  
*Health & Quality Care*

*Charline A. Davidson*  
*Director*  
*Planning & Development*

*Neila L. Gunter*  
*Director*  
*Human Resources*

*Martha J. Mead*  
*Director*  
*Legislation & Public Relations*

*Anne Wingfield*  
*Acting Director*  
*Information Technology*

*Tony Gintout, CPA*  
*Director*  
*Internal Audit*

*James Martinez*  
*Director*  
*Mental Health Services*

*Lee Price*  
*Director*  
*Mental Retardation Services*

*Ken Batten*  
*Director*  
*Substance Abuse Services*

*Paul Gilding*  
*Director*  
*Community Contracting*

*Rosemarie Bonacum*  
*Director*  
*Quality Improvement*

*Margaret Walsh*  
*Director*  
*Human Rights*

*Shirley Ricks*  
*Director*  
*Child and Family Services*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For the Fiscal Year Ended June 30, 2004

This section of the annual financial report of the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) represents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2004. Please read and review this information in conjunction with the Department's transmittal letter at the front of this report and the Department's financial statements (pages 23-26) and note disclosures (pages 27-35).

#### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements of the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) are presented in a proprietary fund format in accordance with the principles of an enterprise fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require the Department to maximize efforts to recover the costs of services rendered at our sixteen inpatient facilities. Due to this, a fee is applicable to every service provided. The Department is required by law to maximize its efforts to collect such fees from individual patients, legally liable parties, and third party coverage such as Medicaid, Medicare and private insurance.

In addition to the operation of inpatient facilities, the Department funds community programs operated by the Commonwealth's forty community services boards. Funding is also provided to a number of private not for profit organizations providing mental health, mental retardation and substance abuse services in a community setting. This funding consists of state general funds from the Commonwealth of Virginia and Federal grant subsidies. These financial activities, along with those attributable to capital maintenance and restricted donations, are presented in the financial statements as non-operating financial activities.

The financial statements and information presented include the following:

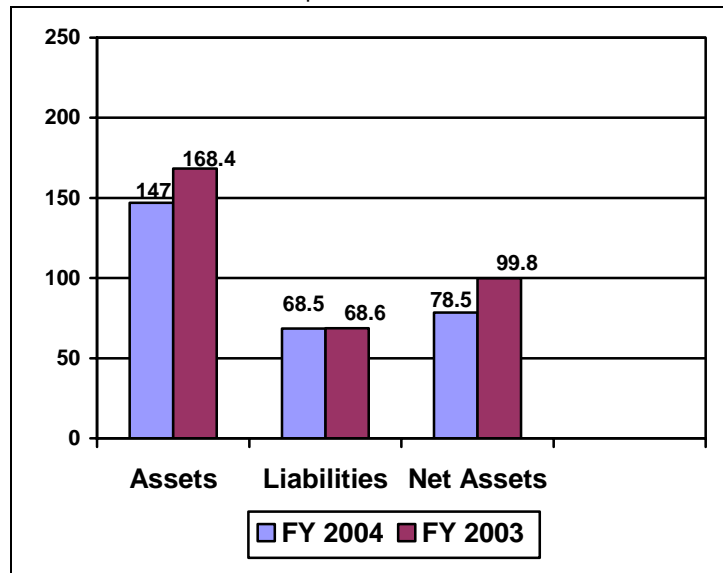
**Statement of Net Assets:** This financial statement displays the Department's assets and liabilities and the difference between them (net assets). Changes in net assets (increases and decreases) represent one mechanism to measure the financial health of the Department and whether it's financial position is improving or deteriorating.

The Department's net assets decreased by 21% from \$99.8 million to \$78.5 million. This decline in net assets was primarily attributable to a \$10 million decrease in third party cost settlements receivable and an \$8.1 million decline in property, plant and equipment net of accumulated depreciation. The Department's inpatient facilities are in need of numerous capital improvements that have yet to occur.

### Statement of Net Assets

	2004	2003	% Change
Current Assets	\$45,771,725	\$58,541,037	(21.8)
Non-current Assets	1,588,341	2,160,756	(26.5)
Property and Equipment	99,676,999	107,760,817	(7.5)
<b>Total Assets</b>	<b>\$147,037,065</b>	<b>\$168,462,610</b>	<b>(12.7)</b>
Current Liabilities	30,597,545	31,050,224	(1.5)
Non-current Liabilities	37,892,759	37,563,778	.9
<b>Total Liabilities</b>	<b>\$68,490,304</b>	<b>\$68,614,002</b>	<b>(.2)</b>
Invested in Capital Assets	99,676,999	107,760,817	(7.5)
Unrestricted Net Assets	(20,624,032)	(6,993,265)	194.9
Restricted Net Assets	(759,057)	(1,207,045)	(37.1)
Retained Earnings	255,851	288,101	(11.2)
<b>Total Net Assets</b>	<b>\$78,549,761</b>	<b>\$99,848,608</b>	<b>(21.3)</b>

### ASSETS, LIABILITIES, NET ASSETS \$Millions

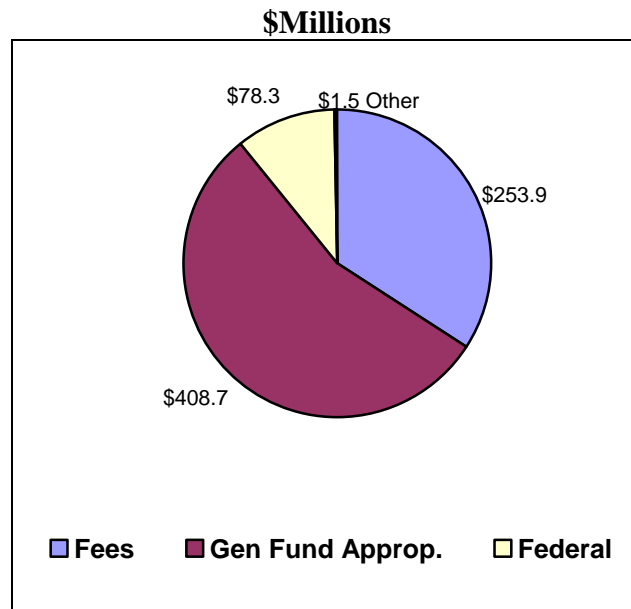


**Statement of Revenues, Expenses and Changes in Net Assets:** This financial statement displays the operating results of the Department for the fiscal year ended June 30, 2004. The Department uses the accrual basis of accounting whereby revenues are recognized when earned as opposed to received and expenses are recognized when incurred as opposed to when paid.

The Department's net patient service revenue and other operating revenue increased by \$16.7 million (7%) to 255.8 million. Appropriations from the Commonwealth (State General Funds) and Federal Grant subsidies increased by \$10.3 million (2%) to \$487 million in fiscal year 2004. This 2% increase reflects funding related to the 2.25% pay increase that became effective November 25, 2003. The increase in net patient service revenue is primarily attributable to a decrease in the charity write offs of accounts receivable (\$6 million) and a decrease in the allowance for doubtful accounts receivable (\$6 million). It should be noted that the Department derives 89% of its patient service revenue as a result of billings to the Department of Medical Assistance Services (the Commonwealth's Medicaid program).

### FY 2004 TOTAL REVENUES (GAAP BASIS)

(Operating & Non-Operating)  
\$742 Million Total



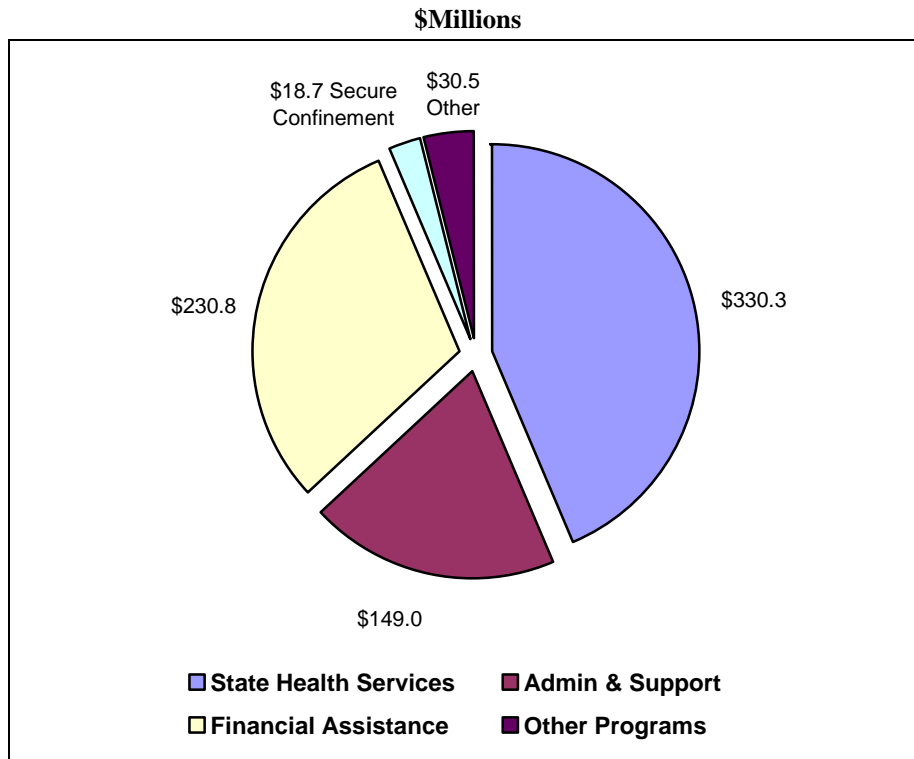
Revenues (in Millions)	2004	2003
Net Patient Service (Fees)	\$253.9	\$236.5
Gen Fund Appropriation	408.7	398.5
Federal	78.3	78.2
Other	1.5	2.2
<b>Total Revenues</b>	<b>\$742.4</b>	<b>\$715.4</b>

Expenses (operating expenses only) for the fiscal year were charged to a number of programs. These expenses are presented on the accrual basis of accounting whereby expenses are recognized when incurred. The Department’s accrual basis expenses for fiscal years 2004 and 2003 were as follows: (in millions)

Expense Program	2004	%	2003	%
State Health Services	\$330.3	44	\$325.8	44
Financial Assistance for Health Services	230.8	30	222.9	30
Administrative & Support Services	149.0	20	152.0	20
Secure Confinement	18.7	2	17.8	2
Instruction	6.4	1	7.3	1
Community Health Services	3.6	1	9.6	1
Depreciation Expenses	10.2	1	10.1	1
Other Program Expenses	10.3	1	2.8	1
<b>Total Expenses</b>	<b>\$759.3</b>	<b>100</b>	<b>\$748.3</b>	<b>100</b>

As may be noted above expenses have increased slightly by \$11m or 1% from the previous fiscal year. This is primarily due to a 2.25% pay increases in November 2003 and delays in filling open positions.

**FY 2004 EXPENSES (GAAP BASIS)**  
**\$759 Million Total Expenses**



**Expense Program Descriptions:** See Notes to Financial Statements (Note 14).

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

The Department used \$244.4 million in net cash to conduct its operating activities for fiscal year 2004. While receipts collected as a result of patient services rendered (\$266.7 million) comprised the majority of the cash inflow from operations, payments of salaries and the cost of employee benefits to the Department's 8,940 full time employees made up the majority of the cash outflow.

Cash flows from non-capital financing activities were positive in the amount of \$243.3 million. This was primarily attributable to General Fund subsidies from the Commonwealth of Virginia totaling \$408.7 million and Federal grant subsidies totaling \$74.5 million.

Cash flows from capital and related financing activities were negative in the amount of nearly \$441,000. This negative cash flow was created by bond reimbursements yet to be received. These reimbursements are receivable upon expenditure of capital bond project appropriations.

## BUDGETARY HIGHLIGHTS

The Department's budget consists of the following sources of funds:

<b>Budget (in Millions)</b>	<b>2004</b>	<b>2003</b>
State General Funds	\$408.7	\$398.5
Special Revenue Funds	261.5	265.7
Federal Funds	84.6	81.1
<b>FY 2004 Final Operating Appropriation</b>	<b>\$754.8</b>	<b>\$745.3</b>

State General Funds consist of the appropriation of general tax revenues from the Commonwealth of Virginia. These funds subsidize the Department's sixteen inpatient facilities, finance the majority of the Central Office oversight functions, and fund community programs operated by Virginia's community services boards and private not for profit organizations.

Special Revenue Funds are derived predominantly from the collection of fees related to the provision of services in the Department's inpatient facilities. These revenues consist of Medicaid reimbursement, Medicare reimbursement, private insurance reimbursement, private payments and Federal entitlement programs.

Federal funds consist of numerous grants from the Federal government. The majority of the Department's federal subsidies consist of the Substance Abuse Prevention Treatment (SAPT) Block Grant and the Community Mental Health Services (CMHS) Block Grant. These grants are passed through to community programs by the Department's Office of Grants Management. With the exception of the National School Lunch, National School Breakfast, Education of Handicapped Children, and the Virginia Department of Agriculture and Consumer Services Federal Food Distribution Program, all grants are passed through to community programs. Those not passed through are administered by some of the Department's sixteen inpatient facilities. In both fiscal years 2004 and 2003 the Department expended just over \$78 million in Federal funds. There was virtually no change in this expenditure amount between years.

Of the Department's consolidated operating budget of \$754.8 million, \$750.6 million was expended. On a budgetary basis of accounting whereby expenses are recognized when paid as opposed to incurred, the Department expended its appropriated resources for the following programs during fiscal years 2004 and 2003: (in millions)

<b>Budgetary Expenditures (In Millions)</b>	<b>2004</b>	<b>2003</b>
State Health Services	\$331.0	\$326.6
Financial Assistance for Health Services (CSB funding)	230.1	222.9
Administration and Support Services	152.6	153.0
Community Health Services	9.4	8.5
Secure Confinement	18.2	18.8
Other Programs	9.3	10.7
<b>Total Budgetary Expenditures</b>	<b>\$750.6</b>	<b>\$740.5</b>

Of these expenditures, \$367.9 million were expended for direct inpatient care, \$230.1 million were transferred to communities for community programs, and \$152.6 million were expended for administration and support services for the Department's facilities and central office. Direct inpatient care consists of state health services and secure confinement. Administration and support services for patients include food services, housekeeping, laundry services, buildings and grounds maintenance, security services, general management and direction, and central office general management and direction.

#### **CAPITAL ASSETS AND CAPITAL OUTLAY BUDGET**

The Department's net capital assets (net of accumulated depreciation) totaled \$99.7 million. This amount represents a decline of 7% from the previous fiscal year. The information below details the composition of the Department's capital assets. (in millions)

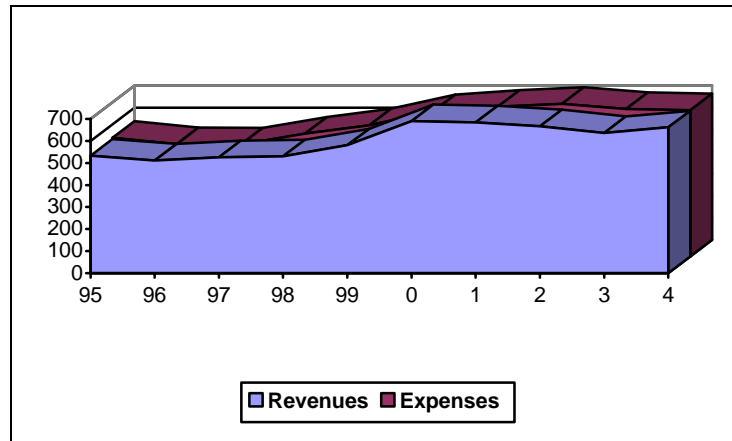
	<u><b>FY 2004</b></u>	<u><b>FY 2003</b></u>
Land	\$14.8	\$14.8
Infrastructure	11.7	12.4
Equipment	50.9	49.7
Buildings	243.8	243.8
Accumulated Depreciation	<u>(221.5)</u>	<u>(213.0)</u>
Net Capital Assets	<u>\$99.7</u>	<u>\$107.7</u>

A capital outlay budget is appropriated to the Department on a biennial basis. During a budget biennium (2 year cycle) capital appropriations may be brought forward with the approval of the Department of Planning and Budget. The capital budget is intended to provide capital maintenance, needed modifications to building structures, improvements to facility boiler operations, and life safety code modifications. For fiscal year 2004 the Department's capital outlay budget was \$31.1 million of which \$8.6 million was expended.

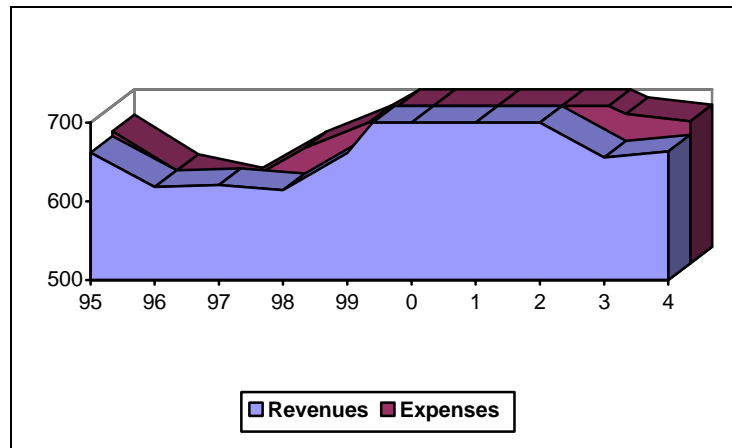
## TEN-YEAR ANALYSIS OF REVENUES AND EXPENSES (FY 1995-FY 2004)

The following charts present trends in revenues and expenses of the Department over the last ten years. These charts reflect both actual and inflation adjusted figures.

**REVENUES & EXPENSES (ACTUAL)  
FY 1995-2004 in Millions**



**REVENUES & EXPENSES (CPI ADJUSTED)  
FY 1995-2004 in Millions (2004=100)**



As may be noted from these charts, total revenues in inflation adjusted terms in FY 1995 were \$661.8 million and in FY 2004 they were \$663.5 million. This represents an increase of \$1.7 million or .26%. Total expenses in inflation adjusted terms were \$668 million in FY 1995 and \$680.6 million in FY 2004 representing an increase of \$12.6 million or 1.9%. These charts generally show a leveling of both revenues and expenses of the Department in inflation adjusted terms since FY 2000. Presented below are the actual figures from these charts and the ten-year excess (deficiency) of revenues over expenses.

**Note:** FY 2003 & 2004 revenues and expenses have been adjusted to exclude federal and capital outlay expenditures so the ten-year analysis is properly comparable. The amounts excluded for revenues represent \$79,314,413 and \$78,862,328 for FY 03 and FY 04, respectively. The amounts excluded for expenses represent \$82,329,458 and \$86,481,097 for FY 03 and FY 04, respectively.

**REVENUES & EXPENSES (ACTUAL)**  
**FY 1995-2004 (\$Millions)**

Fiscal Year	Revenues* (Millions)	Expenses* (Millions)	Excess (Deficiency)
1995	533.8	538.7	(4.9)
1996	511.0	510.5	.5
1997	526.2	508.7	17.5
1998	529.6	557.6	(28.0)
1999	580.4	597.1	(16.7)
2000	693.3	659.4	33.9
2001	683.6	680.1	3.5
2002	666.7	692.7	(26.0)
2003	636.8	669.7	(32.9)
2004	663.5	680.6	(17.1)

\*As noted on the previous page, revenues and expenses exclude federal and capital outlay revenues and expenditures. These items were excluded to make the ten-year analysis properly comparable.

**ECONOMIC FACTORS AFFECTING THE DEPARTMENT**

Fiscal year 2004 was a better year for the Department than fiscal year 2003. Although additional costs were incurred as a result of Hurricane Isabel, the Virginia economy began to rebound. This allowed the Department to refocus its efforts toward its core strategies of census reduction, improved community treatment, reinvestment of financial resources in the community and the very important concept of recovery as a key component of treatment plans. Unlike fiscal year 2003 there were no reductions in force or major organizational changes.

# SYSTEM CHARACTERISTICS

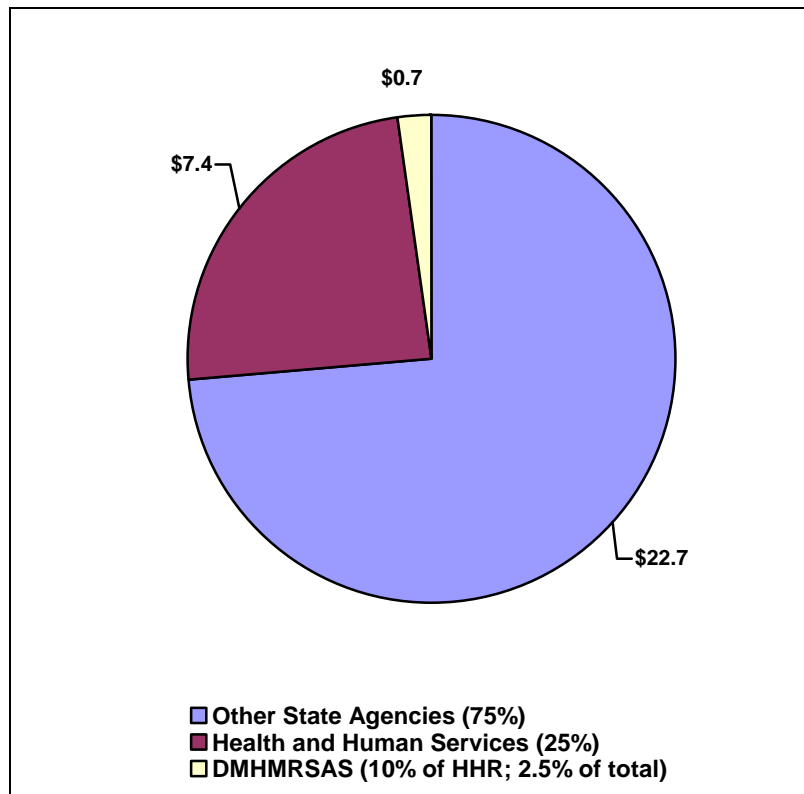
## SYSTEM CHARACTERISTICS OF THE VIRGINIA DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

The Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department" or DMHMRSAS) consists of ten mental health facilities, five training centers for the mentally retarded, one medical center, and a Central Office. The Department also funds forty community services boards.

This section of the Annual Financial Report presents budgetary information for FY 2004 and overall systems funding information for FY 2003 to provide the reader with an overall perspective of the size of the service delivery system within which Department operates. Complete information was not yet available for FY 2004 at the time this report was published.

The Department is organized under the Secretary of Health and Human Resources. Appropriations for the Secretary of Health and Human Resources represented approximately 25% of the Commonwealth of Virginia's \$30.1 billion final operating appropriation for FY 2004. The Department was allocated approximately 10% of the total appropriations available to the Secretary of Health and Human Resources. For the fiscal year, the Department's final operating appropriation was \$754.8 million (excluding capital outlays) and final budgetary operating expenditures were \$750.6 million.

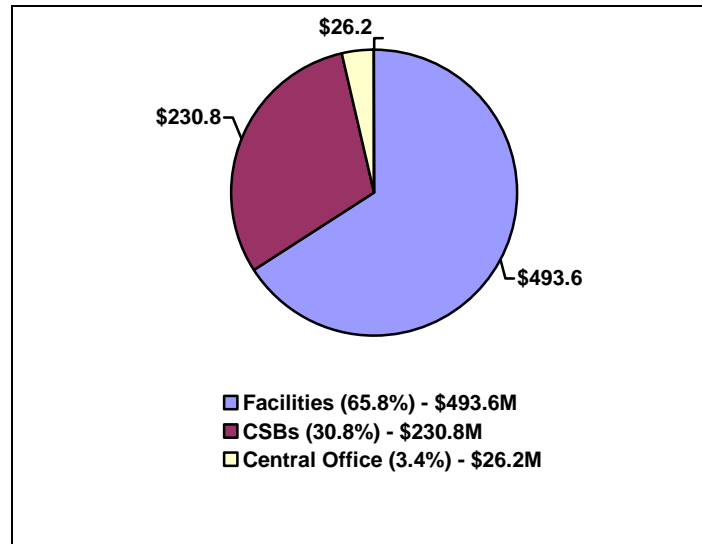
### FY 2004 BUDGET COMMONWEALTH OF VIRGINIA \$30.1 Billion (Final Operating Appropriation)



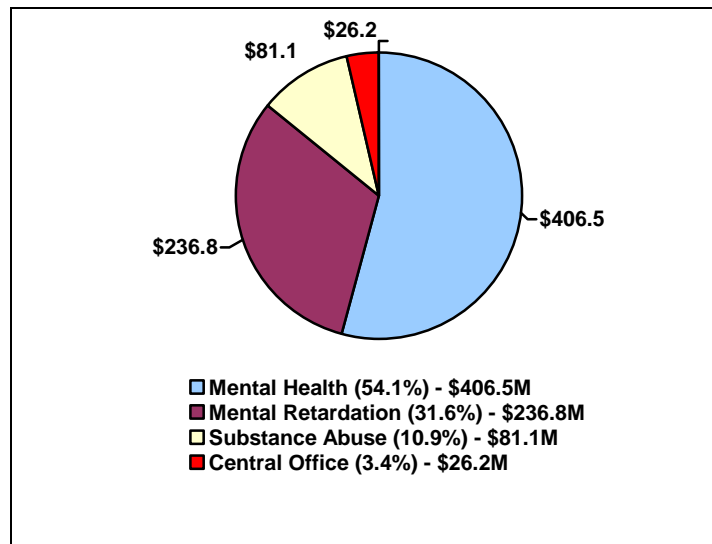
The following charts present FY 2004 final budgetary expenditures for all facilities, CSBs, and the Central Office. Also presented are expenditures by program area: Mental Health, Mental Retardation, Substance Abuse, Administration and Support, and the Central Office.

## **FY 2004 BUDGETARY EXPENDITURES**

### **FACILITIES, CSBs, CENTRAL OFFICE \$750.6 Million Total Expenditures**



### **BY PROGRAM \$750.6 Million Total Expenditures**

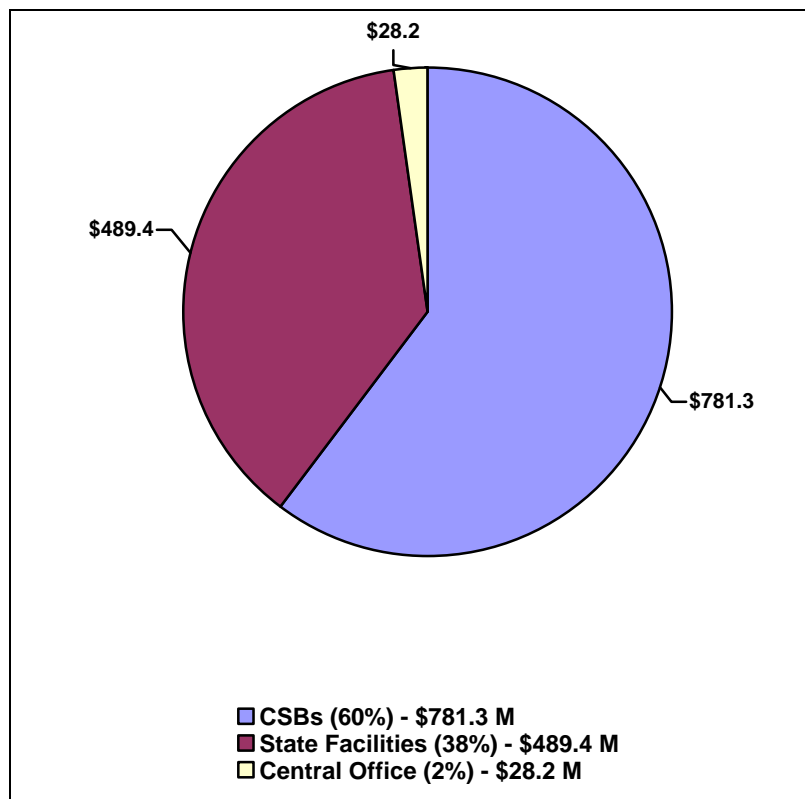


**BUDGETARY EXPENDITURES (\$750.6M) vs. GAAP EXPENSES (\$759.3M):** As noted in the Introduction, budgetary expenditures differ from GAAP expenses due to accounting estimates of revenues earned but not yet received and expenses incurred but not yet paid on the GAAP basis versus cash received and paid on the budgetary basis. GAAP basis expenses include depreciation expense (\$10.2 million) whereas budgetary expenditures do not. This is one of the most significant differences.

The following chart is provided to present a total services systems funding overview for FY 2003 (the most recent year available at the time this report was produced) to include the total funding that is available for publicly funded mental health, mental retardation and substance abuse services within the Commonwealth. Total Services Systems Funding is defined as appropriated amounts for the operation of DMHMRSAS Facilities and Central Office and CSBs. CSB funding includes amounts provided by the federal, state, and local governments, and includes Medicaid, Medicare, and other fees.

### FY 2003 – TOTAL SERVICES SYSTEMS FUNDING CSBs, Facilities, Central Office

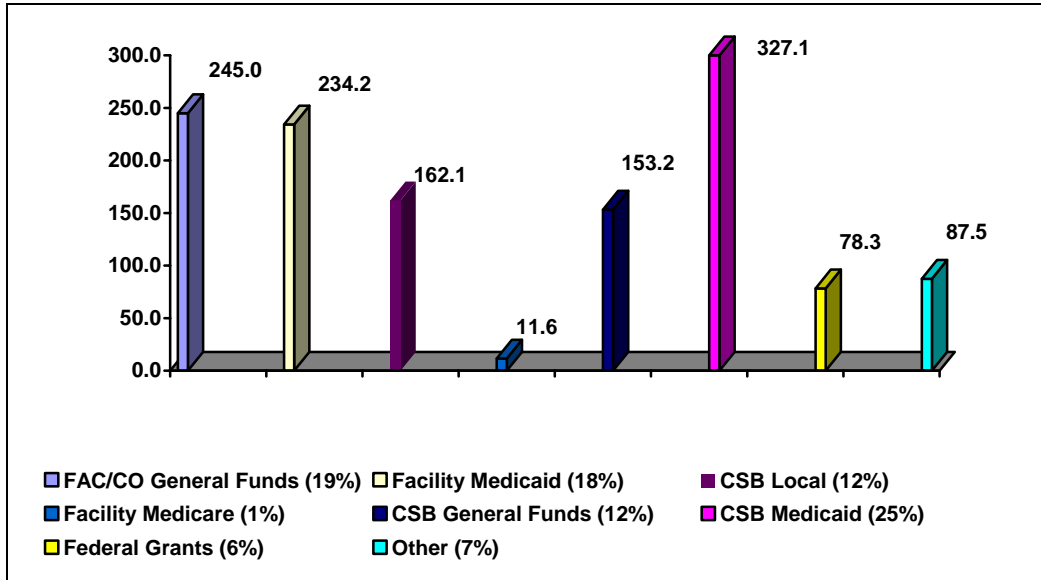
**Grand Total \$1.299 Billion**



The following chart presents total services systems funding for FY 2003 by funding source for Community Services Boards (CSBs), State Facilities, and the DMHMRSAS Central Office.

**TOTAL SERVICES SYSTEM FUNDING – FY 2003  
GENERAL FUND, MEDICAID SOURCES, FEDERAL, LOCAL**

**GRAND TOTAL \$1.299 BILLION**



Funding Source	\$ Millions	%
CSB Medicaid	\$327.1	25
Facility/CO General Fund	245.0	19
Facility Medicaid	234.2	18
CSB General Fund	153.2	12
CSB Local Govt.	162.1	12
Other (Fees, Insurance)	87.5	7
Federal Grants	78.3	6
Facility Medicare	11.6	1
Total	\$1,299.0	100

Source: DMHMRSAS Central Budget Office

**COMMUNITY SERVICES BOARDS**

Community services boards were established through legislation passed by the General Assembly

in 1968 (Chapter 10, Title 37.1 of the Code of Virginia). Local governments were directed to establish and maintain community mental health, mental retardation and substance abuse programs. These programs were to be administered in the most accessible and least restrictive settings. Community services boards serve as providers of services, client advocates, community educators, program developers, and planners on issues related to the provision of services. Listed below are the forty community services boards serving Virginia residents.

### **Virginia Community Services Boards**

Alexandria	Highlands
Alleghany Highlands	Loudoun County
Arlington	Middle Peninsula-Northern Neck
Blue Ridge Behavioral Healthcare	Mount Rogers
Central Virginia	New River Valley
Chesapeake	Norfolk
Chesterfield	Northwestern
Colonial	Piedmont
Crossroads	Planning District 1 Behavioral Health Services
Cumberland Mountain	Portsmouth Dept. of Behavioral Healthcare Svcs.
Danville-Pittsylvania	Prince William County
Dickenson County Behavioral Healthcare	Rappahannock Area
District 19	Rappahannock-Rapidan
Eastern Shore	Region Ten
Fairfax-Falls Church	Richmond Behavioral Health Authority
Goochland-Powhatan	Rockbridge Area
Hampton-Newport News	Southside
Hanover County	Valley
Harrisonburg-Rockingham	Virginia Beach Dept of MH/MR/SAS
Henrico Area	Western Tidewater

Twelve community services boards serve a single county or city while twenty-eight serve multiple jurisdictions. Board members are appointed by their locality and represent the interests of those individuals with mental disabilities or substance abuse problems within their locality. More than 8,000 direct and contract agency staff work within the community services board system serving more than 200,000 clients.

### **CENTRAL OFFICE**

The Department's Central Office has oversight responsibility for the programmatic, financial and administrative activities occurring within the state facilities and community services boards. This office promulgates and enforces policy and provides technical assistance to facilities and community services boards. The Department also licenses and regulates public and private programs and facilities. Joy Yeh, CPA, Ph.D., is the Assistant Commissioner for Finance and Administration. Miguel A. Casanovas, CGFM is the Central Office Finance Director.

### **STATE FACILITIES**

The Department operates ten inpatient mental health facilities. These mental health facilities consist of one adolescent facility, two geriatric facilities, and seven adult facilities. The Department also op-

erates five training centers for people with mental retardation and one medical center. Overall, the Department has more than 400 buildings with a value in excess of \$225 million. As of June 30, 2004, the Department consisted of 8,940 employees and the facility daily average patient census was 3,157. The daily average patient census for each facility is presented below. Employee and census information are also presented for a period spanning 34 years in the charts that follow.

### Virginia's Mental Health Facilities

<u>Facility</u>	<u>Description</u>
<p><b>Catawba Hospital</b>            Director: Jack L. Wood, MBA, VCO            Facility Administrator: Charles C. Law, MHA            Finance Director: James F. Campbell, CPA</p>	<p>Located in Catawba, Virginia, this facility provides care to patients and short-term care to adults from nearby communities. The FY 2004 daily average patient census was 97.</p>
<p><b>Central State Hospital</b>            Director: Charles Davis, MD            Facility Administrator: David Chu            Finance Director: William Hawkins</p>	<p>Located in Petersburg, Virginia, this facility provides inpatient adult psychiatric services as well as forensic and adolescent psychiatric services. The FY 2004 daily average patient census was 245.</p>
<p><b>Eastern State Hospital</b>            Director: John M. Favret            Facility Administrator: Martin S. Kline            Finance Director: Cliff Love</p>	<p>Located in Williamsburg, Virginia, this hospital provides adult, geriatric, acute and chronic psychiatric, behavioral and dual diagnosis to individuals with mental illness and chemical dependency. The FY 2004 daily average patient census was 443.</p>
<p><b>Commonwealth Center for Children and Adolescents</b>            Director: William J. Tuell, RN, MSN            Facility Administrator: Vickie Falls            Finance Director: Vickie Falls</p>	<p>Located in Staunton, Virginia, this new facility provides highly specialized intensive diagnostic, evaluation and psychiatric treatment services to children between the ages of four and eighteen. The FY 2004 daily average patient census was 34.</p>
<p><b>Northern Virginia Mental Health Institute</b>            Director: Lynn DeLacy, RN            Facility Administrator: Richard Lopez, MBA            Finance Director: Anne Baxter</p>	<p>Located in Falls Church, Virginia, this facility provides acute psychiatric care. A 60-bed addition was completed recently. The FY 2004 daily average patient census was 121.</p>
<p><b>Piedmont Geriatric Hospital</b>            Director: Willard R. Pierce, Jr.            Fac. Administrator: H. Eugene Overton, CPA            Finance Director: Lynne Inge</p>	<p>Located in Burkeville, Virginia, this hospital provides care for geriatric patients. The FY 2004 daily average patient census was 122.</p>
<p><b>Southern Virginia Mental Health Institute</b>            Director: B.R. Ashby, M.D.            Facility Administrator: A. Wade Hopkins, CPA            Finance Director: A. Wade Hopkins, CPA</p>	<p>Located in Danville, Virginia, this facility provides short-term acute psychiatric care. The FY 2004 daily average patient census was 75.</p>

### Virginia's Mental Health Facilities (Continued)

<u>Facility</u>	<u>Description</u>
<p><b>Southwestern Virginia Mental Health Institute</b>            Director: Cynthia McClure            Facility Administrator: Roy G. Layne            Finance Director: Lonzo Lester, Jr.</p>	<p>Located in Marion, Virginia, this facility provides acute and long-term care for adolescents, adults, and geriatrics. The FY 2004 daily average patient census was 147.</p>
<p><b>Western State Hospital</b>            Director: Jack Barber, MD            Facility Administrator: David Mawyer            Finance Director: Jon Chapman</p>	<p>Located in Staunton, Virginia, this hospital provides inpatient adult psychiatric services. The FY 2004 daily average patient census was 235.</p>
<p><b>Virginia Center for Behavioral Rehabilitation</b>            Director: C. C. Murphy            Assistant Director: Eric Aldridge            Finance Director: Bob Kaufman</p>	<p>Located in Petersburg, Virginia, this facility was established July 1, 2003. Its purpose is to provide treatment to individuals deemed to be sexually violent. Patients at this facility have completed their prison terms associated with sexually violent behavior and are receiving inpatient treatment for their disorders.</p>

### Virginia's Facilities for the Mentally Retarded

The Department's training centers provide residential care and training in such areas as language, self-care, independent living, socialization, academic skills and motor development. Each training center is described below.

<u>Facility</u>	<u>Description</u>
<p><b>Central Virginia Training Center</b>            Director: Denise D. Micheletti, MSA, RN            Facility Administrator: Charles Felmlee            Finance Director: Charles Felmlee</p>	<p>Located in Lynchburg, Virginia, this center provides inpatient services to residents who are severely and profoundly retarded. The FY 2004 daily average patient census was 590.</p>
<p><b>Northern Virginia Training Center</b>            Director: Mark Diorio, Ph.D.            Facility Administrator: none            Finance Director: Sobra Ewald</p>	<p>Located in Fairfax, Virginia, this center serves residents with moderate to profound mental retardation. The FY 2004 daily average patient census was 185.</p>
<p><b>Southeastern Virginia Training Center</b>            Director: Robert D. Shrewsberry, Ph.D.            Facility Administrator: Ann Andrews            Finance Director: Maureen Doggett</p>	<p>Located in Chesapeake, Virginia, this center serves individuals with severe to profound mental retardation. The FY 2004 daily average patient census was 194.</p>
<p><b>Southwestern Virginia Training Center</b>            Director: Dale Woods, Ed.D.            Facility Administrator: John W. Jones, Jr.            Finance Director: Frances Vaught, CGFM</p>	<p>Located in Hillsville, Virginia, this center serves persons with severe to profound mental retardation and multiple disabilities. The FY 2004 daily average patient census was 216.</p>
<p><b>Southside Virginia Training Center</b>            Director: John A. Holland, M.D.            Facility Administrator: William Hawkins            Finance Director: Bob Kaufman</p>	<p>Located in Petersburg, Virginia, center serves individuals with severe to profound mental retardation and varying physical disabilities. The FY 2004 daily average patient census was 384. This facility provides administrative and operational support to Central State Hospital and Hiram</p>

Davis Medical Center.

**Medical Center**

**Hiram Davis Medical Center**

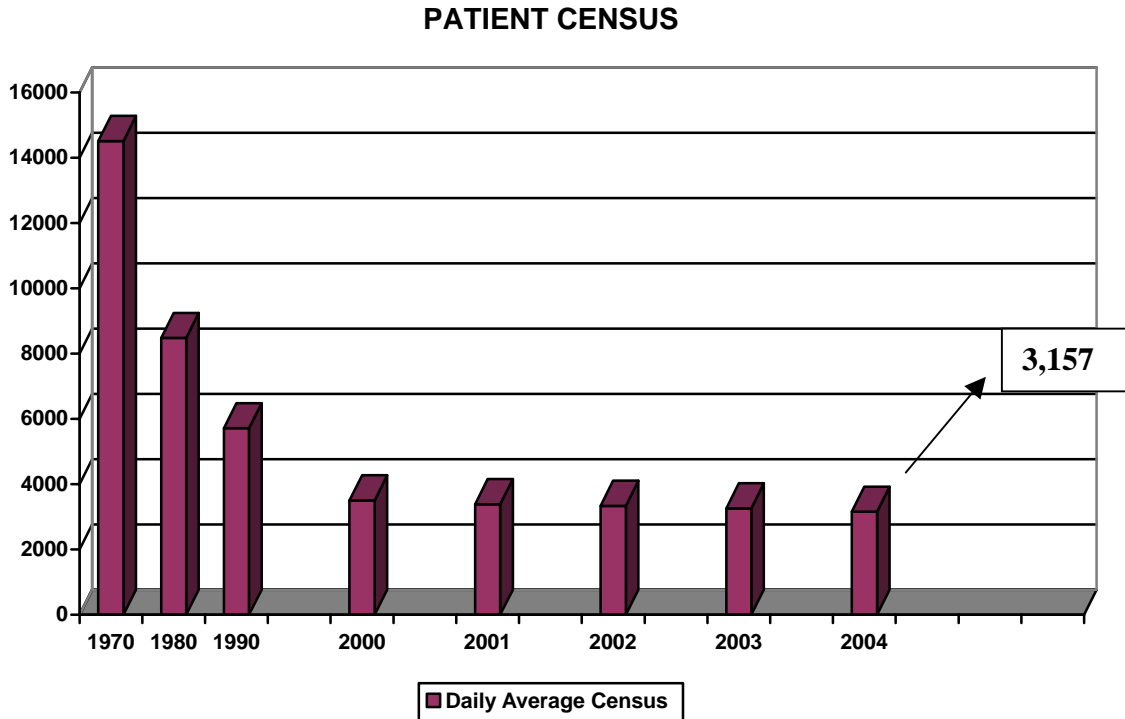
Director: David A. Rosenquist

Facility Administrator: William Hawkins

Finance Director: Bob Kaufman

Located in Petersburg, Virginia, the Department operates this center, which serves the medical needs of patients and residents of Central State Hospital, and Southside Virginia Training Center, respectively. The medical center also operates an aftercare pharmacy, which provides medications to the patients and residents of the Petersburg Complex and clients of the forty community services boards. The FY 2004 daily average patient census was 69.

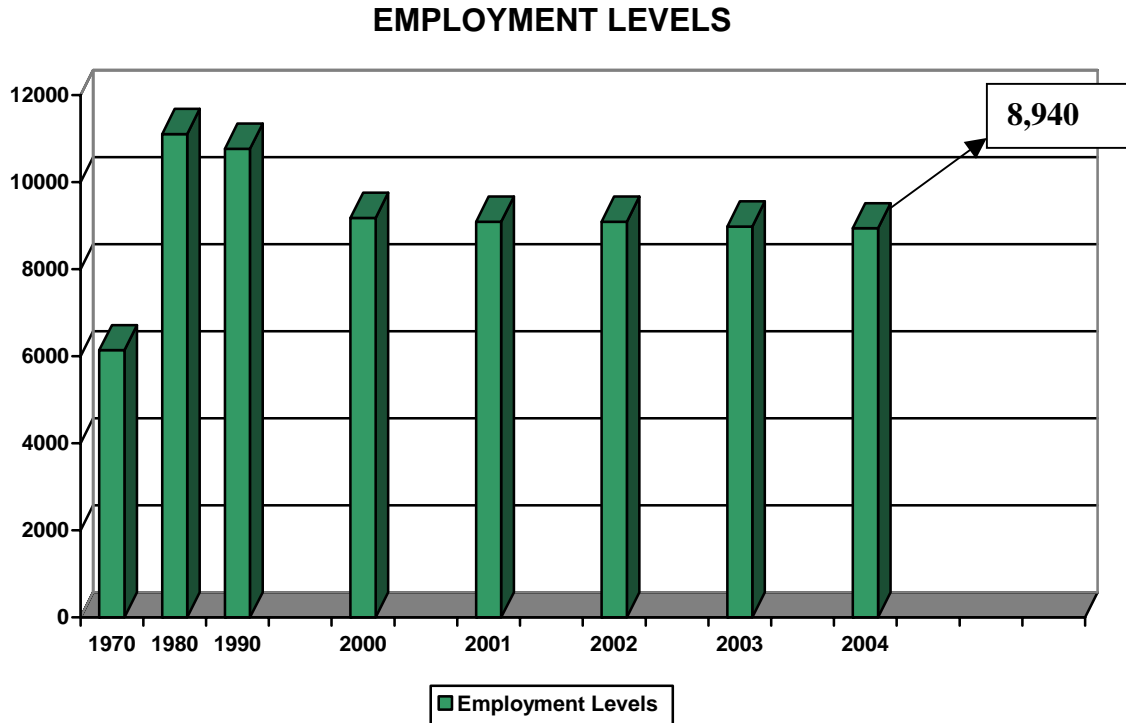
The following chart presents selected patient census levels over the past 34 years. As can be noted, the Daily Average Census levels have been steadily declining since 1970. In 1970, the Daily Average Census was 14,514 and in 2004 the Daily Average Census was 3,157.



**Source:** “Comparative Analysis-Operating Statistics and Costs” and “Ten Year Expenditure Analyses.”  
DMHMRSAS Central Budget Office

The following chart presents selected employment levels over the past 34 years. Employment levels have been declining since 1980. The 1980 level was 11,106 and the 2004 level was 8,940. These em-

ployment levels include all DMHMRSAS operations (facilities and central office).



**Source:** DMHMRSAS Central Budget Office “Comparative Analysis-Operating Statistics and Cost” and “Ten Year Expenditure Analyses.”

**Note:** Employment levels are employees on payroll at the end of the fiscal year. The average number of employees for FY 2004 was 9,007. Employment levels were low in the 1970's due to the operation of fewer facilities by DMHMRSAS. In 1970, DMHMRSAS operated 9 facilities. In 1980 there were 17 facilities and from 1990-2003 there were 15 facilities. Currently, DMHMRSAS operates 16 facilities. This reflects the addition of a new facility, Commonwealth Center for Behavioral Rehabilitation, for the treatment of sexually violent predators.

# FINANCIAL STATEMENTS

**Virginia Department of Mental Health, Mental Retardation  
and Substance Abuse Services  
Statement of Net Assets**

**For Fiscal Year Ended June 30, 2004  
With Comparative Figures for 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current Assets:		
Cash, Cash Equivalents and Investments	\$2,055,400	\$2,113,746
Cash with Treasurer of Virginia	5,063,266	5,973,022
Cash Advances	62,150	62,150
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$14,655,669 for 2004 and \$20,559,926 for 2003)	33,145,554	35,762,076
Cost Settlements Receivable	-	10,052,431
Other Accounts Receivable	156,080	595,816
Inventories	3,417,168	3,290,842
Prepaid Assets	1,872,107	690,954
Total Current Assets	<u>45,771,725</u>	<u>58,541,037</u>
<b>Noncurrent Assets</b>		
Capital Outlay Funds	(878,244)	(437,848)
Patient/Resident Funds Held by Trustee	2,469,585	2,598,604
Property, Plant, & Equipment (Net of Accumulated Depreciation)	99,676,999	107,760,817
Total Noncurrent Assets	<u>101,268,340</u>	<u>109,921,573</u>
Total Assets	<u><u>\$147,040,065</u></u>	<u><u>\$168,462,610</u></u>
<b>Liabilities</b>		
Current Liabilities:		
Accrued Payroll	\$23,801,817	\$23,300,151
Third Party Cost Settlement Payable	200,434	-
Accounts Payable	5,599,658	6,935,652
Compensated Absences	204,384	454,988
Retainage Payable	274,181	216,935
Deferred Revenue	342,307	-
Capital Lease Obligations	-	2,142
Other Liabilities	174,764	140,356
Total Current Liabilities	<u>30,597,545</u>	<u>31,050,224</u>
<b>Noncurrent Liabilities</b>		
Compensated Absences	35,399,254	34,941,867
Patient/Resident Funds Held by Trustee	2,469,585	2,598,604
Capital Lease Obligations	-	-
Other Liabilities	23,920	23,307
Total Noncurrent Liabilities	<u>37,892,759</u>	<u>37,563,778</u>
Total Liabilities	<u>68,490,304</u>	<u>68,614,002</u>
<b>Net Assets</b>		
Invested in Capital Assets	99,676,999	107,760,817
Retained Earnings	255,851	288,101
Unrestricted	(20,624,032)	(6,993,265)
Restricted	(759,057)	(1,207,045)
Total Net Assets	<u><u>\$78,549,761</u></u>	<u><u>\$99,848,608</u></u>

See accompanying notes to financial statements.

**Statement of Revenues, Expenses and Changes in Net Assets  
For Fiscal Year Ended June 30, 2004  
With Comparative Figures for 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>		
Net Patient Service Revenue	\$253,872,023	\$236,547,960
Other Operating Revenue	961,373	1,748,773
Total Operating Revenue	<u>254,833,396</u>	<u>238,296,733</u>
<b>Expenses</b>		
State Health Services	330,316,475	325,801,524
Administration and Support Services	149,012,850	151,981,017
Secure Confinement	18,743,764	17,831,064
Community Health Services	3,584,970	9,581,637
Depreciation Expense	10,224,573	10,146,200
Instruction	6,375,003	7,318,043
Regulation of Public Facilities	1,011,597	1,128,634
Health Research and Planning	258,907	821,608
Loss on Disposal of Equipment	293,442	279,961
Vending Facilities	144,756	144,176
Other Expenses	-	1,623
Total Operating Expenses	<u>519,966,337</u>	<u>525,035,487</u>
Operating Income (Loss)	<u>(265,132,941)</u>	<u>(286,738,754)</u>
<b>Nonoperating Income (Loss)</b>		
Appropriations from the Commonwealth	408,680,443	398,539,848
Federal Grant Revenues	78,340,597	78,225,544
Restricted Donations	395,962	344,893
Surplus Property Sales	13,462	16,964
Insurance Recovery Proceeds	110,055	19,375
Interest Income	2,252	4,116
Financial Assistance for Health Services	(230,831,100)	(222,912,160)
Capital Outlay Expenses	(7,823,517)	(3,819,392)
Other Nonoperating Expenses	(8,457,006)	(284,522)
Total Nonoperating Income (Loss)	<u>240,431,148</u>	<u>250,134,666</u>
Income (Loss) Before Contributions and Transfers	<u>(24,701,793)</u>	<u>(36,604,088)</u>
Transfers from Department of Medical Assistance Services	-	-
Capital Appropriations from the Commonwealth	2,531,620	-
Capital Revenue Bond Proceeds	6,870,671	739,860
Reversions to the Commonwealth	(1,750,850)	(2,207,790)
Net Operating Transfers	<u>(4,248,495)</u>	<u>(13,742,000)</u>
Change in Net Assets	<u>(21,298,847)</u>	<u>(51,814,018)</u>
Net Assets, Beginning of Year	<u>99,848,608</u>	<u>151,662,626</u>
Net Assets, End of year	<u><u>\$78,549,761</u></u>	<u><u>\$99,848,608</u></u>

See accompanying notes to financial statements.

**Virginia Department of Mental Health, Mental Retardation  
and Substance Abuse Services  
Statement of Cash Flows**

**For Fiscal Year Ended June 30, 2004**

**Cash Flows from Operating Activities:**

Receipts from Patient Services	\$266,741,410
Other Operating Receipts	1,040,573
Payments to Employees	(396,655,880)
Payments to Suppliers	(115,554,250)
<b>Net Cash Provided by Operating Activities</b>	<b><u>(244,428,147)</u></b>

**Cash Flows from Noncapital Financing Activities:**

Operating Subsidies-General Fund Appropriations	408,680,443
Federal Grant Subsidies	74,497,795
Payments to Community Programs	(230,831,100)
Net Operating Transfers and Reversions	(650,311)
Restricted Donations	395,962
Restricted Expenditures	(8,483,269)
Restricted Expenditures (Local Funds)	(307,424)
Endowment Expenditures	(9,559)
Nonoperating Revenues	123,517
Transfers to Patient and Canteen Activities	(87,280)
Interest Income from Endowment Funds	2,252
<b>Net Cash Flows form Noncapital Financing Activities</b>	<b><u>243,331,026</u></b>

**Cash Flows from Capital and Related Financing:**

Revenue Bond Proceeds	6,870,672
Capital Outlay Expenditures	(8,630,345)
Capital Outlay Appropriations	2,531,620
Net Cash Transfers and Reversions	(1,212,343)
<b>Net Cash Flows from Capital and Related Financing</b>	<b><u>(440,396)</u></b>

Net increase (Decrease) in Cash and Cash Equivalents	(1,537,517)
Balance – Beginning of Year	10,309,674
<b>Balance – End or Year</b>	<b><u>\$8,772,157</u></b>

**Reconciliation of Operating Loss to Net Cash Used by Operations**

Operating Loss	\$(265,132,941)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operations:	
Depreciation Expense	10,224,573
Loss on Disposal of Property	293,442
Decrease in Restricted Accounts Receivable	(360,536)
Decrease in Restricted Accounts Payable	(1,616,303)
Increase in Restricted Retainage Payable	57,246
Increase in Restricted Deferred Revenue Liability	342,307
Decrease in Patient Fund Liability (Restricted Funds)	129,019
Transfers to Canteen Funds Affecting Operations	(42,466)

See accompanying notes to financial statements.

**and Substance Abuse Services**  
**Statement of Cash Flows (continued)**  
**For Fiscal Year Ended June 30, 2004**

<b>Net Changes in Assets and Liabilities:</b>	
Accounts Receivable	2,616,522
Other Accounts Receivable	439,736
Third Party Settlements Receivable	10,052,431
Inventories	(126,326)
Prepaid Assets	(1,181,153)
Accrued Payroll	501,666
Accounts Payable	(1,335,994)
Compensated Absences – Current	(250,604)
Retainage Payable	57,246
Deferred Revenue	342,307
Capital Lease Liabilities – Current	(2,142)
Other Current Liabilities	34,408
Compensated Absences – Long Term	457,387
Funds Held in Custody for Others	(129,019)
Third Party Settlements Payable	200,434
Other Liabilities	613
<b>Net Cash Used by Operating Activities</b>	<b><u><u>\$(244,428,147)</u></u></b>

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The accompanying financial statements represent the activities of the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services for the fiscal year ended June 30, 2004. The financial statements presented include the sixteen state operated facilities, a central office, and funding for forty community services boards (page 17). The state facilities are listed below as follows:

<u>Facility</u>	<u>Location</u>	<u>Facility</u>	<u>Location</u>
Central State Hospital	Petersburg	Catawba Hospital	Catawba
Eastern State Hospital	Williamsburg	Northern VA Training Center	Fairfax
Southwestern VA MH Institute	Marion	Southside VA Training Center	Petersburg
Western State Hospital	Staunton	Northern VA MH Institute	Falls Church
Central VA Training Center	Lynchburg	Piedmont Geriatric Hospital	Burkeville
Commonwealth Center for Children and Adolescents	Staunton	Southwestern VA Training Center	Hillsville
Central Office	Richmond	Southern VA MH Institute	Danville
Southeastern VA Tng. Center	Chesapeake	Hiram Davis Medical Center	Petersburg
Commonwealth Center for Behavioral Rehabilitation	Petersburg		

#### B. Enterprise Fund Accounting

The Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual. The reason for adopting this methodology was driven by Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements- and Management Discussion and Analysis- for State and Local Governments." According to this statement, enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require DMHMRSAS to maximize efforts to recover the cost of services provided at DMHMRSAS' sixteen mental health and mental retardation facilities. A fee is applicable to every service provided and efforts to collect these fees are required by the Code of Virginia.

#### C. Net Patient Service Revenue

Patient service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for un-collectible accounts and contractual adjustments are deducted to arrive at net patient service revenue, as are charges for charity services.

#### D. Un-collectible Accounts

The Department records a provision for un-collectible accounts during the period in which collection is considered doubtful.

**E. 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 Trigon. These third-party payers have entered into contractual arrangements with the Department for reimbursement of services provided to patients in specific certified components of the Department's individual facilities. Generally, the Department is reimbursed for patient services by these third-party payers at the lower of cost or charges or at prospectively determined rates in the case of certified components that provide inpatient services. Throughout the year, the third-party payers reimburse the Department at a prearranged tentative payment amount.

In accordance with the third-party payor agreements, the difference between covered charges, whether based upon allowable costs of services or prospectively determined rates, and the Department's standard billing rates results 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 for reimbursement of patient services covered by third-party programs are determined through cost reports, which are subject to audit and retroactive adjustments by these third parties. The settlements receivable or payable from third-party programs are recorded in the accompanying financial statements.

**F. Investments**

Investments are valued at cost or fair market value when received if donated.

**G. Inventory**

Inventory is generally valued at average cost. DMHMRSAS inventory consists of the following: drugs, medical supplies, materials, food supplies, petroleum/fuel oil, housekeeping and laundry supplies, personal care items and clothing, and office supplies. Adjustments have been made in order to report inventory amounts in accordance with the consumption method.

**H. Compensated Absences**

Compensated absences reflected in the accompanying financial statements represent the amounts of vacation, sick and compensatory leave earned by employees of the Department, but not taken at June 30, 2004. The amount reflects all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave policies.

**2. CASH AND INVESTMENTS**

The following information is disclosed regarding cash and investments maintained by the Department.

**A. Cash with the Treasurer of Virginia**

The Treasurer of Virginia, in accordance with the Code of Virginia, maintains all State funds of the Department. The Treasurer is responsible for the collection, disbursement, custody and investment of State funds. Each fund's equity in pooled State funds is reported as "Cash with the Treasurer of Virginia" on the balance sheet and is not categorized as to credit risk.

**B. Investments**

Certain deposits and investments are held by the Department or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia. Such deposits and invest-

ments are reported separately from Cash with the Treasurer as investments. Short-term investments represent investments, which mature within one year or less. Investments with maturities in excess of one year are considered long term investments.

Statutes authorize the investment of funds held by the Department in obligations of the Commonwealth, Federal government, other States or political subdivisions thereof, Virginia political subdivisions and the International Bank of Reconstruction and Development and the Asian Development Bank. In addition, the Department may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the Department.

The Department's investments, including short-term investments, are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2004. Credit risk is the risk that the Department may not be able to obtain possession of its investment instrument or investments which are insured or registered or for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Department's name. The market value of the Department's investments at June 30, 2004 was equal to the carrying value of such investments.

The Department's investments are categorized below by credit risk. The three types of credit risk are:

- Category 1: Insured or registered securities or securities held by the Department or its agent in the Department's name.
- Category 2: Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the Department's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparts, or by its trust department or agent but not in the Department's name.

**Schedule of Cash Equivalents  
and Investments  
As of June 30, 2004**

	Category			Carrying Amount
	1	2	3	
U.S. Treasury and Agency Securities	\$15,500	-	-	\$15,500
Corporate Notes	1,076	-	-	1,076
	<u>\$16,576</u>	<u>-</u>	<u>-</u>	<u>16,576</u>
Investments not Subject to Categorization:				
Money Market Funds				56,682
Non-negotiable CDs				99,088
Mutual Fund Money Market				10,212
State & Local Govt. Investment Pool (LGIP)				<u>2,584,451</u>
Total Cash Equivalents and Investments				<u>\$2,767,009</u>

Cash not with the Treasurer of Virginia amounts to \$1,757,976 and the bank balance is \$1,857,594. The entire bank balance is either collateralized in accordance with the Code of Virginia or is insured by the Federal Deposit Insurance Corporation (FDIC).

### 3. NONCURRENT ASSETS

Noncurrent Assets are for two primary purposes. The first purpose is for capital maintenance and construction. These funds are held with the Treasurer of Virginia. The second purpose is for discretionary use by DMHMRSAS patient/residents. These funds are held in trust in local bank accounts throughout the State.

### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or estimated historical cost. The Department capitalizes expenditures for equipment if the equipment is separate, has a multi-year life and has a value or unit acquisition cost in excess of \$1,500 at the date of acquisition (for State Hospitals and Training Centers). The capitalization dollar limit at the Department's Central Office is \$5,000.

Depreciation on property, plant and equipment is computed over the estimated useful lives of the assets based upon the straight-line method of depreciation. The general range of estimated useful lives is fifteen to forty years for buildings and fixtures and three to fifteen years for equipment. A summary of changes in fixed assets is presented below:

	<b>Balance at July 1, 2003</b>	Additions	Deletions	<b>Balance at June 30, 2004</b>
Land	\$14,773,386	\$ -	\$ -	\$14,773,386
Infrastructure	12,463,063	32,826	820,241	11,675,648
Equipment	49,679,957	2,397,916	1,156,986	50,920,887
Building	243,845,646	3,455	75,202	243,773,899
Construction in Progress	-	-	-	-
Accumulated Depr.	(213,001,234)	(10,224,573)	(1,758,987)	(221,466,820)
<b>Total</b>	<b>\$107,760,818</b>	<b>(\$7,790,376)</b>	<b>(\$293,442)</b>	<b>\$99,677,000</b>

## 5. RETAINAGE PAYABLE

At June 30, 2004, \$274,181 was held by DMHMRSAS as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the various contracts.

## 6. CAPITAL LEASE OBLIGATIONS

The Department of Mental Health, Mental Retardation and Substance Abuse Services was the lessee of capital equipment under capital leases expiring in various years through 2004. There were no capital lease obligations outstanding as of June 30, 2004. The assets under capital leases are typically recorded as fixed assets at the lower of the net present value of the minimum lease payments during the lease term or the fair market value of the asset. For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 2004 are as follows:

<u>Year</u>	<u>2004</u>	<u>2003</u>
2004	\$-	\$3,274
2005	-	-
2006-2008	-	-
Later Years	-	-
Total Minimum Lease Payments	-	3,274
Less: Executory Costs	-	(1,081)
Net Minimum Lease Payments	-	2,193
Less: Interest	-	(51)
Present Value Minimum Lease Payments	\$0	\$2,142
Current Portion	\$0	\$2,142
Long-term Portion	-	-
Total	\$0	\$2,142

Interest rates on capitalized leases varied from 6% to 78.41% and were based upon negotiations between each Facility Administrator and the lessor. Due to budgetary constraints, it was sometimes advantageous or necessary for some administrators to secure leases (albeit high interest) as opposed to making capital outlays because lump sum funding was not always available.

## 7. CONTRIBUTIONS TO PENSION PLAN

The Department contributes to a defined benefit plan administered by the Virginia Retirement System. The Virginia Retirement System also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

## 8. OPERATING LEASES

The Department is also committed under various operating leases for equipment. In general, these leases are short term in nature. As of June 30, 2004, the Department has the following total future minimum rental payments due:

<u>Year</u>	<u>Amount</u>
2005	\$181,520
2006	45,015
2007	13,577
2008	-
2009	-
Later Years	-
Total Minimum Lease Payments	240,112
Less: Executory Costs	60,898
Net Minimum Rental Payments	<u>\$179,214</u>

## 9. SURETY BOND

Employees of the Department are covered by a Faithful Performance Duty Bond administered by the Division of Risk Management, Commonwealth of Virginia, with liability limits of \$500,000 for each occurrence. Information relating to this policy is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

## 10. CONTINGENCIES

Medicare cost reports submitted to the Medicare program together with the related statistics that support cost allocations to the program for the fiscal year ended June 30, 2004 have not been reviewed by the fiscal intermediary. Acceptance and review of these cost reports could result in adjustments to settlements and a liability of the Department to the Medicare program. The effects of these reviews cannot be determined at this time. Medicaid cost reports submitted for final settlement for the fiscal year ended June 30, 2004 have not been reviewed by the intermediary. Acceptance and review of these cost reports could result in adjustments to the settlements and a liability of the Department to the Medicaid program. It is the opinion that adjustments, if any, resulting from this review will not be material.

The Department is involved in several lawsuits arising in the ordinary course of operations. It is the Department's opinion that any losses incurred as a result of known claims existing as of June 30, 2004 will not be material.

## 11. APPROPRIATIONS FROM THE COMMONWEALTH

The Appropriations Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have

not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Department's facilities or Central Office for expenditure.

The original appropriation from the General Fund of the Commonwealth for fiscal year 2004 has been adjusted as follows:

<b>FY 2004, Original Appropriation, as of July 1, 2003</b>		<b>\$395,005,957</b>
General Fund Relief		11,554,010
Employee Health Insurance Increase		7,087,951
General Fund Re-grade (2.25%)		4,471,937
From DOC and CO for Virginia Center for Behavioral Rehabilitation		2,131,438
Substance Abuse Maintenance of Effort Revenue		1,000,000
General Fund Carry-forward Balances		234,210
Property Insurance Increase		79,980
Special Education Funding for Facilities (5)		34,306
Reduction in Airline Ticket Purchases		(8,145)
HHR Secretary's Office Staffing		(27,856)
VITA Savings (Central Office)		(30,920)
Retiree Health Insurance & VSDP Rate Savings		(647,269)
Retirement Contribution Rate Savings		(737,406)
Group Life Insurance Suspension		(940,744)
Transfer to Dept of Rehabilitative Services		(1,527,006)
Medicaid Match for Facilities (5)		(9,000,000)
<b>Final (Adjusted) Appropriation, June 30, 2004</b>		<b>\$408,680,443</b>

## 12. COLLECTIONS FOR THE GENERAL FUND OF THE COMMONWEALTH

The Department's facilities collect revenues for the General Fund of the Commonwealth. These collections are included under non-operating income in the Statement of Revenues, Expenses, and Changes in Net Assets. These funds are deposited by each facility directly with the Treasurer of Virginia for credit to the Commonwealth's General Fund and are not available to meet current operating needs. The categories of collection are as follows:

Hospital Food Services	\$ 18,192
Rental of Quarters	19,471
Miscellaneous Revenue	4,002
Prior Year Expenditure Refunds	45,548
Total	<u>\$87,213</u>

**13. NET PATIENT SERVICE REVENUE (FEES)**

The Department's mental health and mental retardation facilities provide a significant amount of services which are deemed charitable and are subsidized by state General Fund appropriations. Of the total charges of \$478,999,534 for fiscal year 2003, \$208,048,638 was deemed to be charitable services. Charitable write-offs occur when no third party resources are available and investigation of client resources indicate the client is unable to pay full rate charges or reduced charges determined in accordance with a sliding fee scale. This amount has been deducted from gross patient service revenue. The following chart presents the detail calculations of net patient service revenue (Fees) for FY 2004 and FY 2003, respectively. It is useful to note that 89% of DMHMRSAS revenue consists of Medicaid reimbursements.

**Net Patient Service Revenue (FEES)  
FY 2004 and FY 2003**

Description	FY 2004	FY 2003	Change
Gross Patient/Resident Charges	\$478,999,534	\$497,121,762	(18,122,228)
Less: Charity Allowance	(208,048,638)	(214,789,686)	6,741,048
Plus: Third Party Cost Settlements Receivable	0	10,052,431	(10,052,431)
Less: Contractual Adjustments	(17,078,873)	(55,836,547)	38,757,674
<b>Net Patient Service Revenue</b>	<b>\$253,872,023</b>	<b>\$236,547,960</b>	<b>17,324,063</b>

**14. EXPENSE PROGRAM DESCRIPTIONS**

The Department reports expenses under various state programs. These programs are briefly described below.

**State Health Services (430):**

Efforts to provide direct health care services to individuals and families through state-operated facilities.

**Administration and Support Services (449):**

Efforts to provide overall administrative and logistical support services. This includes general management, computer services, food services, housekeeping, laundry, physical and power plant, and training.

**Financial Assistance for Health Services (445):**

Efforts to provide financial aid to localities for the provision of local health services. This includes CSB funding for mental health, mental retardation, substance abuse, and administrative services.

**Secure Confinement (357):**

Efforts to hold patients in secure confinement until such time as they can be returned to the community. This includes the forensic unit at Central State Hospital.

**Instruction (197):**

Efforts to provide academic elementary and secondary education. This includes basic skills and knowledge instruction as well as occupational-vocational instruction.

**Community Health Services (440):**

Efforts to provide health care services to individuals and families through community-based services.

**Regulation of Public Facilities (561):**

Efforts to inspect, certify, and regulate public facilities and services, both publicly and privately operated.

**Health, Research, and Planning (406):**

Efforts to promote the public health through research planning, and coordination of services and activities.

**Vending Facilities (806):**

Efforts to provide food services.

**15. CHANGE IN ACCOUNTING ESTIMATE**

In prior years DMHMRSAS has accrued cost settlements receivable and payable. This accrual was based upon estimated settlement amounts produced by the preparation of Medicare and Medicaid cost reports on an annual basis. Analysis of these prior year accruals indicates that these estimates are subject to significant change prior to actual payment of the cost settlement. These changes are primarily the result of audits of the Medicare and Medicaid cost reports. The audits are performed by the fiscal intermediary more than one year after the close of a given fiscal year.

As a result of the potential uncertainty involved in the determination of third party cost settlements, the estimated settlement amounts attributable to the fiscal year 2004 Medicare/Medicaid cost reports are not presented as part of these financial statements. The amount actually presented represents Medicare cost settlements payable as of June 30, 2004. This amount has been audited and will be repaid by the Department in fiscal year 2005.

**Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services**  
**Schedule of Expenditures of Federal Awards**  
**For Fiscal Year Ended June 30, 2004**

Federal Sponsor/Program	CFDA#	Balance 7/1/03	Receipts	Disb.	Balance 6/30/04
<b><u>MONETARY ASSISTANCE</u></b>					
<b><u>U.S. DEPT OF AGRICULTURE:</u></b>					
Pass Through Payments (VA Dept of Education):					
National School Breakfast Program	10.553	\$22,351	\$18,586	\$18,179	\$22,758
National School Lunch Program	10.555	26,628	46,302	43,309	29,621
<b><u>U.S. DEPT. OF HEALTH &amp; HUMAN SERVICES:</u></b>					
Direct Payments:					
Public Health & Social Services Emergency Fund	93.003	-	(267,924)	(267,924)	-
Technical Asst. for CMHS Block Grant Activity	93.119	-	25,356	25,356	-
Project for Asst. in Transition from Homelessness	93.150	-	848,260	848,260	-
Consolidated Knowledge Development & Application	93.230	-	2,543,917	2,543,917	-
Traumatic Brain Injury – State Demonstration Grant Pgm	93.234	-	66,376	66,376	-
Comparing Ways of Collecting SA Outcome Data	93.238	-	134,835	134,835	-
CMHS Block Grant	93.958	-	12,354,609	12,354,609	-
SA Prevention & Treatment Block Grant	93.959	927	42,903,906	42,904,833	-
MH Disaster Assistance & Emergency MH	93.982	-	2,455,270	2,455,270	-
<b>U.S. DEPT. OF EDUCATION: Grants for Infants &amp; Families</b>	84.181	514	13,312,617	13,313,131	-
<b>U.S. DEPT. OF HEALTH: Internet Access Grant</b>	93.879	16,697	-	-	16,697
<b>U.S. DEPT. OF HUD: Shelter Plus Care</b>	14.238	-	119,588	119,588	-
<b>U.S. DEPT. OF JUSTICE: Summer AR</b>	16.540	-	16,745	16,745	-
<b><u>PASS THROUGH GRANTS:</u></b>					
VA. Dept. of Education: Adult Education	84.002	2,510	-	-	2,510
VA Dept. of Education: Education for Handicapped Children	84.009	3,309	42,712	43,994	2,027
VA Dept. of Education: Education of Handicapped Children	84.027	-	20,521	20,994	(473)
VA Dept. of Criminal Justice: Drug Ctl. & Sys. Improvement	16.579	20	-	-	20
VA Dept. of Emergency Services: FEMA 99	97.032	-	903,619	843,190	60,429
Board for People with Disabilities: Developmental Disab.	93.630	-	30,430	30,430	-
VA Dept. of Social Services: Child Care & Development	93.575	-	1,601,916	1,601,916	-
VA Dept. of Social Services: TANF/LINK	17.253	7,036	382,293	389,329	-
VA Dept. of Social Services:	93.658	84,245	225,977	310,222	-
VA Dept. of Med. Asst. Svcs: Medical Assistance Pgm.	93.778	(419)	948,421	948,002	-
VA Office of Protection Advocacy: Olmstead Task Force	93.138	-	5,522	5,522	-
VA Dept. of Criminal Justice: JABIG	16.523	-	90,337	90,337	-
Non-categorical Grants	N/A	28,126	6,855	26,013	8,968
Total Monetary Assistance		191,944	78,837,046	78,886,433	142,557
<b><u>NONMONETARY ASSISTANCE</u></b>					
<b><u>U.S. DEPT OF AGRICULTURE</u></b>					
Pass Through Payments: VADACS Food Distribution Program	10.550	19,305	30,976	23,581	26,700
Total Federal Assistance		\$211,249	\$78,868,022	\$78,910,014	\$169,257

This Schedule is presented on the cash basis of accounting

# CHRONOLOGICAL HISTORY

**CHRONOLOGICAL HISTORY OF THE VIRGINIA  
DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND  
SUBSTANCE ABUSE SERVICES**

- 1773 Public Hospital for Persons of Insane and Disordered Minds (currently known as Eastern State Hospital) is established in Williamsburg. This facility is the first in the new world designed exclusively for treatment of people with mental disabilities.
- 1825 Western State Hospital is established in Staunton.
- 1841 Public Hospital for Persons of Insane and Disordered Minds changes its name to Eastern Lunatic Asylum.
- 1869 Central State Hospital is established in Howards Grove.
- 1885 Central State Hospital is moved to Petersburg.
- 1886 Southwestern State Hospital (currently known as Southwestern Virginia Mental Health Institute) is established in Marion.
- 1894 Eastern Lunatic Asylum changes its name to Eastern State Hospital.
- 1909 Catawba Hospital is established near Salem.
- 1910 The Virginia State Colony for the Epileptic and Feebleminded (currently known as Central Virginia Training Center) is established in Lynchburg to serve people with mental retardation.
- 1911 Individual boards are created to govern each state hospital and the state colony in Lynchburg.
- 1918 Piedmont Hospital (currently Piedmont Geriatric Hospital) is established near Burkeville.
- 1929 DeJarnette Center is established in Staunton.
- 1936 The first state hospital board (currently known as the State Mental Health, Mental Retardation and Substance Abuse Services Board) is established.
- 1939 Petersburg Colony (currently known as Southside Virginia Training Center) is established to serve people with mental retardation.
- 1940 The Virginia State Colony for the Epileptic and Feebleminded changes its name to the Lynchburg State Colony.
- 1942 The Department of Mental Hygiene and Hospitals is established in Richmond (currently known as the Department of Mental Health, Mental Retardation and Substance Abuse Services). Hugh C. Henry, MD is appointed the first Commissioner. Daily average patient census is 14,189.
- 1946 Joseph E. Barrett, MD is appointed second Commissioner. Daily average patient census is 13,656.
- 1954 The Lynchburg State Colony changes its name to the Lynchburg Training School and Hospital.
- 1957 Hiram W. Davis, MD is appointed as third Commissioner. Daily average patient census is 13,706.
- 1968 The General Assembly passes legislation (Chapter 10 of Title 37.1) allowing the establishment of community services boards. Northern Virginia Mental Health Institute is established in Falls Church.
- 1969 William Allerton, MD is appointed as fourth Commissioner. Daily average patient census is 14,501.

- 1971 The name of the Petersburg Colony is changed to the Petersburg Training School and Hospital.
- 1973 Northern Virginia Training Center and Southwestern Virginia Training Center are established in Fairfax and Hillsville, respectively. The Department of Mental Hygiene and Hospitals changes its name to the Department of Mental Health and Mental Retardation.
- 1974 The name of the Petersburg Training School and Hospital is changed to Southside Virginia Training Center.
- 1975 Southeastern Virginia Training Center is established in Chesapeake.
- 1976 By act of the General Assembly, the Division of Drug Abuse Control is merged with the Bureau of Drug Rehabilitation in the Department of Mental Health and Mental Retardation to form the Division of Substance Abuse. Leo Kirven, MD is appointed as fifth Commissioner. Daily average patient census is 10,227.
- 1977 Southern Virginia Mental Health Institute is established in Danville.
- 1979 Hiram Davis Medical Center is established in Petersburg.
- 1980 The General Assembly amends Chapter 10 to require all cities and counties to join or establish a community services board by July 1, 1983.
- 1981 Joseph Bevilacqua, Ph.D. is appointed as sixth Commissioner. Daily average patient census is 8,024.
- 1983 Statewide coverage of community services boards is achieved.
- 1985 The Lynchburg Training School and Hospital changes its name to Central Virginia Training Center.
- 1986 Howard M. Cullum is appointed as seventh Commissioner. Daily average patient census is 6,154.
- 1987 The Department of Mental Health and Mental Retardation becomes the Department of Mental Health, Mental Retardation and Substance Abuse Services.
- 1988 The General Assembly enacts a \$68 million community services initiative, the single largest infusion of state funding for community services. The Southside MHMR Support Unit is merged with Southside Virginia Training Center.
- 1990 King E. Davis, Ph.D. is appointed as eighth Commissioner. The geriatric unit at Western State Hospital and the adolescent unit at Eastern State Hospital are closed and patients transferred. Daily average patient census is 5,714.
- 1991 The Department implements Medicaid State Plan Option and mental retardation waiver with community services boards. The Virginia Treatment Center for Children is transferred to the Medical College of Virginia to more adequately serve the hospital's research needs.

- 1994 Timothy A. Kelly, Ph.D. is appointed as ninth Commissioner. Daily average patient census is 4,924.
- 1997 Richard E. Kellogg is appointed acting Commissioner. Daily average patient census is 4,176.
- 1998 Richard E. Kellogg is appointed as tenth Commissioner. The Hall-Gartlan Commission completes its work and makes significant recommendations for change in the system of publicly funded mental health, mental retardation, and substance abuse services. This leads to a major rewrite of portions of the Code of Virginia dealing with community mental health, mental retardation, and substance abuse services. Daily average patient census is 4,048.
- 1999 Admissions to state hospitals continue to decline as medications used in community settings become more effective. Total admissions to state hospitals in FY 1999 declined by 1,193 or 19% to 6,316. Daily average patient census is 3,799.
- 2000 Admissions to state hospitals continue to decline. Total admissions to state hospitals in FY 2000 declined by 1,146 or 18.1% to 5,170. The daily average patient census is 3,505.
- 2001 Admissions to state hospitals increased moderately. Total admissions to state hospitals in FY 2001 increased by 154 or 3% to 5,324. The daily average patient census is 3,191. DeJarnette Center changes its name to Commonwealth Center for Children and Adolescents.
- 2002 James S. Reinhard, MD is appointed as eleventh Commissioner. Total admissions to state hospitals in FY 2002 increased by 734 or 13% to 6,058. The daily average patient census is 3,342. Due to severe state budget and economic conditions, the Department is tasked by the Governor with reducing expenses by \$33.4 million in fiscal year 2003 and \$37.3 million in fiscal year 2004. These reductions apply to the Department's facilities, Central Office, and Community Program (CSB) funding.
- 2003 The patient/resident average continued to decline. Average census at June 30, 2003 was 3,263. Due to recessionary times experienced by the Commonwealth as well as the nation, the Department was forced to reduce its workforce during fiscal year 2003. Total full time staff employed by the Department at June 30, 2003 was 8,967, down from 9,090 the previous year. State funding to community programs was reduced by 10% during the 2003 fiscal year. The Department, in partnership with community services boards and state hospitals, began a series of regional reinvestment projects. These projects involve the reallocation of current state hospital resources to community programs.
- 2004 The patient/resident average census continued to decline and amounted to 3,157 as of the close of fiscal year 2004. Regional reinvestment projects, started in fiscal year 2003, continued as the Department moved forward in making efforts to maximize resources in community settings. Although not officially transitioned until early fiscal year 2005, fourteen information technology services staff were transferred from the Department to the newly formed Virginia Information Technology Agency (VITA).

## **ACKNOWLEDGEMENTS**

This annual report was prepared under the direction of Joy Yeh, CPA, Ph.D., Assistant Commissioner, Finance and Administration and Kenneth M. Gunn, Jr., CGFM, CPA, Director, Office of Financial Reporting and Compliance. Annual financial statement preparation is very much a team effort and could not have been possible without the diligent efforts of facility financial management staff and those offices in the Division of Finance and Administration at the Central Office.

The team involved in preparing this report includes: Garland A. Adkins, Jr., CFE, CPA; Nauri D. Ahmed, CGFM, CPA; and Gerald M. Spivey, CGFM, CFE. These individuals are Financial Management Analysts within the Office of Financial Reporting and Compliance. Brenda Mantlo, Executive Secretary to Dr. Yeh, was also instrumental in the production of this report.

The Auditor of Public Accounts (APA) has audited previous years' financial statements and operations of the Department. These audits have been favorable for such a large State agency. The Department has been committed to cooperating as best it can, within its resources, to comply and implement all APA recommendations. Copies for prior years' audit reports may be obtained by writing or contacting the APA. The address is:

Auditor of Public Accounts  
P.O. Box 1295  
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