

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
MENTAL RETARDATION SERVICES BOARD**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

**MOUNT ROGERS COMMUNITY MENTAL HEALTH AND
MENTAL RETARDATION SERVICES BOARD**
Financial Statements
June 30, 2008

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**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD
Board of Directors and Officials
For Year Ended June 30, 2008**

Officers

Mr. Rhea Lawrence – Chairperson

Mr. Mike Maynard – Vice Chairperson

Ms. Pat McClane – Treasurer

Ms. Denise Grego - Secretary

Board of Directors

Bland County

Ms. Sue Ellen Tate

City of Galax

Ms. Sharon Plichta

Smyth County

Mr. Raymond Buchanan, Jr.

Mr. Rhea Lawrence

Mrs. Darlene Neitch

Ms. Susan Snead

Carroll County

Ms. Mary Coulson

Mrs. Mava Vass

Mr. Nathan Lyons

Grayson County

Mr. Mike Maynard

Ms. Vicky Johnson

Wythe County

Ms. Denise Grego

Ms. Patricia McClane

Ms. Sannie Ziegler

Officials

Lisa Moore – Executive Director

Patricia Musser – Director of Finance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**TO THE BOARD OF DIRECTORS
MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD
WYTHEVILLE, VIRGINIA**

We have audited the accompanying financial statements of the Mount Rogers Community Mental Health and Mental Retardation Services Board, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Mount Rogers Community Mental Health and Mental Retardation Services Board's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Board's financial statements for the year ended June 30, 2007, and in our report dated October 19, 2007, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mount Rogers Community Mental Health and Mental Retardation Services Board, as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2008, on our consideration of the Mount Rogers Community Mental Health and Mental Retardation Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Mount Rogers Community Mental Health and Mental Retardation Services Board's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Mount Rogers Community Mental Health and Mental Retardation Services Board. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
September 5, 2008

Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Mount Rogers Community Mental Health and Mental Retardation Services Board's (Board) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Board for the fiscal year ending June 30, 2008.

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, there is certain required supplementary information regarding schedule of expenditures of federal awards and schedule of insurance.

Mission Statement and Organization

Mount Rogers Community Mental Health and Mental Retardation Services Board is dedicated to improving the quality of life for people with mental, physical and substance abuse 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 consumer 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 30 sites throughout the catchment area.

Overview of Financial Statements

The basic financial statements of the Mount Rogers Community Mental Health and Mental Retardation 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 Mental Health to maximize efforts to recover the costs of services rendered by fees from individual patients, legally liable parties, and third party coverage such as Medicaid, Medicare and private insurance. Medicaid and Medicare are the largest fee generators.

The Board's financial statements are reported on the full accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). Mount Rogers Community Mental Health and Mental Retardation Services Board provides behavioral health care services in the areas of mental health, mental retardation and substance abuse services. These services place us in the health care arena and in accordance with the Governmental Accounting Standards Board 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 Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

Basic Financial Statements

The basic financial statements, including all assets and liabilities, 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 true revenues and expenditures are taken into account regardless of when cash is received or paid.

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

The Statement of Net Assets displays the Board's net assets, liabilities and the changes in them (referred to as net assets). Changes in net assets (increases and decreases) represent one mechanism to measure the financial health of the Board over time and whether its financial position is improving or deteriorating. The Statement of Net Assets serves the additional purpose of describing 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 consumer needs and competition for services, to assess the overall financial health of the Board.

The Statement of Revenues, Expenses, and Changes in Net Assets present the operating results of the Board for the fiscal year ending June 30, 2008. This statement is a measuring tool to determine how the Board performed in a given time period (July 1, 2007 to June 30, 2008). It gives the reader a general breakdown of operations by the main sources of income and the main spending categories. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

A third statement, the Statement of Cash Flows, identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the organization. The Statement of Cash Flows, when taken together with the Statement of Net Assets and Statement of Revenues and Expenses, provides the reader a complete snapshot of the financial condition of the Board as of June 30, 2008.

Component Units

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

The other component unit included in the financial statements is the Employee Benefit Trust. The Trust was established in the 1980's when the Board began to self insure for employee medical coverage. The Trust has since expanded its use to include operation of the agency

Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

Humanitarian Fund, Wellness activities, and a newly expanded sick leave benefit implemented by the Board during FY-2006.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Board's financial position. At the close of the current fiscal year, the assets exceeded the liabilities by \$18,911,486. This amount of net assets is a good indicator that the Board's financial position is stable. During the year the net assets increased over last year by a total of \$2,458,517. Most of this increase can be seen as an increase in cash and cash equivalents. The amount of cash and cash equivalents increased \$2,213,216 over last year.

A large portion of the Board's assets (41 percent) reflects its investment in capital assets. The investment in capital assets is less any 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.

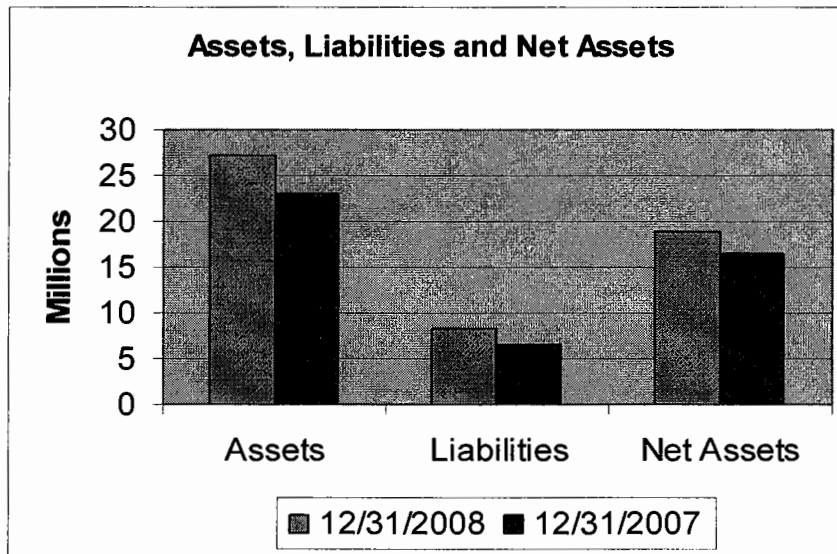
The following table reflects the condensed Statement of Net Assets:

Summary of Statement of Net Assets

	<u>Year Ending June 30, 2008</u>	<u>Year Ending June 30, 2007</u>
Current and other assets	\$ 16,051,321	\$ 14,473,721
Capital assets	<u>11,031,091</u>	<u>8,572,061</u>
Total assets	<u>\$ 27,082,412</u>	<u>\$ 23,045,782</u>
Long-term liabilities	\$ 6,486,547	\$ 2,527,733
Other liabilities	<u>1,684,379</u>	<u>4,065,080</u>
Total liabilities	<u>\$ 8,170,926</u>	<u>\$ 4,033,548</u>
Net assets:		
Invested in capital assets, Net of debt	\$ 4,412,210	\$ 5,931,238
Unrestricted	<u>14,499,276</u>	<u>10,521,731</u>
Total net assets	<u>\$ 18,911,486</u>	<u>\$ 16,452,969</u>

Invested in capital assets is comprised of the depreciated balances of Board owned facilities less debt owed on the related asset.

Management's Discussion and Analysis



The value of cash and cash equivalents increased 22% or \$2,219,275 over the prior fiscal year. This increase is largely attributable to the excess revenue over expenditures for FY-2008. There were also large changes in other assets. Capital assets continue to increase. During this year, the Fernwood Center was completed. This 21,000 square foot center houses the counseling center, the youth services and the community extended care services for the Grayson/Carroll area. This facility will house in excess of 80 employees.. The amount spent to construct the facility totaled in excess of \$4,650,000. Investment decreased this year due to construction project being completed. This construction project affected investments due to the fact that the funding agency deposited \$350,000 per month into an investment account that we drew funds from to pay the related construction expenses. New investment accounts have been established to accumulate the principal and interest reduction payments. The Agency funds these investment accounts on a monthly basis and the principal and interest payments are paid to the lender, twice a year, in August and February.

Short-term debt decreased this year by the amount of a commercial paper loan thru VML/VACo being paid off. This debt was used to fund the project discussed above. This commercial paper debt was paid off with the issuance of the bonds discussed in the following paragraph.

During the current year, the Agency entered into an agreement with the Industrial Development Authority of the County of Stafford and the City of Staunton Virginia to issue bonds in the amount of \$4,000,000. These Series A bonds were issued February 28, 2008 and bear an interest rate of 6.5%. Payment of interest and a variable principal reduction is due semi-annually in August and February. These bonds mature in August of 2038.

Accrued interest payable increased by \$82,529. This increase is due to an interest payment on bonds issued being due August 1, 2008.

Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

At the end of the current fiscal year, the Board is able to report positive balances in both categories of net assets. The same situation held true for the prior fiscal year.

The following table reflects the revenues and expenses of the Board for the FY-08 and FY-07.

**Statement of Revenues and Expenses
Comparison**

	<u>Year Ending June 30, 2008</u>	<u>Year Ending June 30, 2007</u>	<u>Increase/ Decrease</u>
Revenues			
Operating Revenues:			
Fees	\$ 18,790,625	\$ 16,684,416	12.6%
State Funding	6,474,027	6,565,472	-1.4%
Federal Funding	1,384,345	1,354,675	2.2%
Contract Sales	9,108,461	6,620,119	37.6%
Local Governments	442,636	414,255	6.9%
Contributions/Other Local	157,868	130,780	20.7%
Miscellaneous	206,843	330,544	-37.4%
Housing Payments	21,258	20,976	1.3%
Health Care Payments	2,837,679	2,587,517	9.7%
Non-operating Revenue:			
Interest Income	<u>291,697</u>	<u>303,475</u>	<u>3.9%</u>
Total Revenues	<u>\$ 39,715,439</u>	<u>\$ 35,012,229</u>	<u>13.4%</u>
Expenditures			
Personnel	\$ 22,025,463	\$ 20,137,036	9.4%
Operating	14,416,469	10,227,981	41.0%
Depreciation	563,819	552,158	2.1%
Interest	<u>251,171</u>	<u>116,874</u>	<u>114.9%</u>
Total Expenditures	<u>\$ 37,256,922</u>	<u>\$ 31,034,049</u>	<u>20.1%</u>

Fiscal Year ending June 30, 2008 reflects the steady continued growth in the area of fees for service and contract sales revenues. The sources of fee revenues are direct billing to consumers, Medicaid, other private and governmental insurance companies and services provided to other local agencies on a contractual basis. Fee revenues reflect an increase of 12.6% or \$2,106,209 compared to FY-2007.

Contract Sales revenues increased by \$2,488,342, or 37.6% over FY-2007. This increase is due to an additional production activities from federal government contracts and from a contract with a local manufacturing company.

Mount Rogers Community Mental Health and Mental Retardation Services Board continues to act as the fiscal agent of the Southwest Region for the purchase of in-patient psychiatric bed days and a discharge assistance project. During the current year, the Board received over \$1,928,000 of funds to manage. Of this amount \$1,517,777 was expended to achieve the purpose of the project.

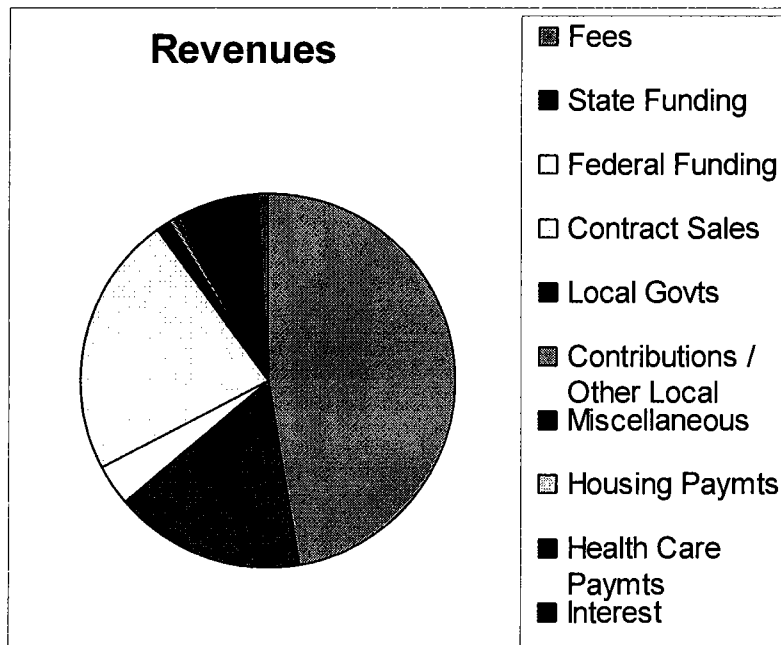
Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

Other Contributions and other local funding had an increase \$27,088. These accounts include funding from local agencies that are not attached to a specific client for a specific purpose. The increases in these accounts show the additional expansion of services to consumers and the additional dedication of the local agencies to show support of those services.

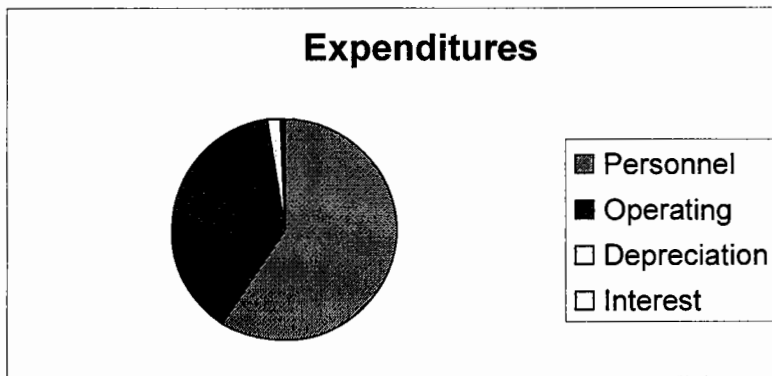
Health care payments revenue shows additional amounts received of \$250,162 over the prior year. This revenue reflects payments received from the programs to service health and dental claims and premiums. Although there is an increase in the amounts received this year, there will also be an increase in the amounts spent this year which are reflected in the expenditures titled "personnel".

Both personnel and operating costs reflect a growth rate of approximately 9.4% and 41% respectively during FY-2008. These increased expenditures are indicators of service expansion throughout the fiscal year. Operating expenses for FY-2008 include a substantial expenditure in equipment due to completion of the Fernwood Center. Contractual services purchased this year increase \$3,028,198. The reason attributed to the large increase would include additional contracts the Industrial Development Centers had with vendors and an increase in the number of specialized family services providers.



Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis



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

Overall cash increased this year by \$2,219,275. This was a result of changes in cash flows in operating activities, non-capital financing activities, and capital financing activities.

The board generated \$3,149,361 in net cash to conduct its operating activities for the fiscal year 2008. Receipts from client and customers generated \$31,162,538, while receipts from state, federal and local governments were \$8,412,878. Cash outflows to employees totaled \$24,769,671 and payments for goods and services totaled \$11,656,384.

The net cash generated by financing activities amounted to \$1,370,124. This amount included loan proceeds from a bond issuance of \$4,000,000 and debt payments on long-term debt to Rural Development, BB&T and the Virginia Housing Authority of \$11,916. Short-term debt of \$3,200,000 from the issuance of commercial paper in the prior year was also retired this year through the issuance of bonds.

Net cash used by investing activities was \$2,300,210. This amount included the purchase of capital assets for \$3,106,914, payment of interest expense of \$165,227, the payment of bond issuance costs of \$125,000, the receipt of interest income of \$297,404 and the proceeds from the sale of investments of \$800,295.

Capital Assets

The Board's net capital assets (net of accumulated depreciation) totaled \$11,031,091. This amount represented an increase of 28.6% over the previous fiscal year. This amount increased mainly due to the Fernwood Center construction project. Additions this year to the construction in project totaled \$2,646,365. The Board purchased additional acres adjacent to the Fernwood Center at a total purchase price of \$80,670 for expansion purposes. The Board also purchased \$340,738 of equipment this year which included twelve vehicles, a forklift and two passenger vans. Below is a comparison of the items that make up Capital Assets as of June 30, 2008 with that of June 30, 2007.

Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

<u>Description</u>	<u>FY 2008</u>	<u>FY 2007</u>
Real Estate	\$ 12,766,461	\$ 8,082,239
Equipment & Vehicles	3,399,239	3,138,904
Construction in Progress	<u>-</u>	<u>1,988,304</u>
Total	16,165,700	13,209,447
Less Accumulated Depreciation	<u>5,134,609</u>	<u>4,637,386</u>
Net Property & Equipment	<u>\$ 11,031,091</u>	<u>\$ 8,572,061</u>

Long-term debt

During the current fiscal year a bond issuance indebted the Board by an amount of \$4,000,000. Additional debt from a commercial paper loan obtained in the prior year of \$600,000 was obtained before the bond issuance. At the date of the bond issuance the commercial paper loan of \$3,200,000 was paid off in its entirety. Principal payment of \$11,916 was paid for mortgage loans with Rural Development and Virginia Housing Development Authority. Agency indebtedness at June 30th is \$5,278,955.

Budgetary Highlights

The following table reflects the budget to actual comparison on a cash basis for the fiscal year 2008.

	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Fees	18,792,079	18,721,489	18,790,625	69,136
State Funding	6,362,257	6,389,888	6,474,027	84,139
Federal Funding	1,155,045	1,304,942	1,323,873	18,931
Contract Sales	5,166,517	9,193,452	9,108,461	(84,991)
Local Governments	414,255	442,636	442,636	-
Contribution/Other local	112,621	153,804	157,868	4,064
Miscellaneous	224,737	376,765	157,729	(219,036)
Prior year regrant	<u>996,310</u>	<u>1,052,323</u>	<u>60,472</u>	<u>(991,851)</u>
Total Revenue	<u>33,223,821</u>	<u>37,635,299</u>	<u>36,515,691</u>	<u>(1,119,608)</u>

Mount Rogers Community Mental Health and Mental Retardation Services Board

Management's Discussion and Analysis

	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:				
Personnel	22,707,806	22,229,283	22,025,463	203,820
Staff Development	211,099	158,785	140,826	17,959
Facilities	1,654,313	1,487,247	1,332,054	155,193
Equipment/Supplies	2,962,665	3,412,053	2,894,808	517,245
Travel	849,114	918,543	972,134	(53,591)
Contract Service	4,323,137	6,317,229	5,735,844	581,385
Miscellaneous	<u>515,687</u>	<u>3,112,159</u>	<u>455,051</u>	<u>2,657,108</u>
Total Expenditures	<u>33,223,821</u>	<u>37,635,299</u>	<u>33,556,180</u>	<u>4,079,119</u>

Both revenue and expense budgets were revised mid-year to reflect changes in anticipated program revenue and to adjust for capital outlay reserves to be funded. The Board does not budget for non-operating expense such as depreciation expense nor does the board budget interest income and interest expense.

Economic Outlook

The current projection for FY-2009 is a similar rate of growth for the Board's operation. New allocations of State funding for Mental Health Law Reform and Children's Services and the continued growth in Mental Health Supports and Case Management Services and associated fee revenues are estimated to increase the FY-2009 budget an estimated \$0.5 – 1 million over the FY-2008 budget.

Additionally, the Board's production component is expected to generate contract sales revenues similar to FY-2008 levels. While the square footage expansion of the Wythe IDC will accommodate additional production jobs to be contracted and should allow a level of steady employment to consumers receiving services in the Industrial and Developmental Centers, the current economy has resulted in a decrease in federal and local contracts. New and expanded contracts are being pursued.

Request for Information

This financial report is designed to provide our citizens, consumers, 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 requested in writing to Fiscal Director, Mount Rogers Community Services Board, 770 West Ridge Road, Wytheville, VA 24382.

FINANCIAL STATEMENTS

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Statements of Net Assets
June 30, 2008
(With Comparative Totals for June 30, 2007)

	Primary Government	Component Units	Total Reporting Entity	
			2008	2007
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,894,738	\$ 1,958,716	\$ 11,853,454	\$ 9,640,238
Cash and cash equivalents - restricted	35,343	-	35,343	29,284
Accounts receivable (net of allowance for doubtful accounts)	2,535,927	-	2,535,927	2,575,730
Investments	527,158	-	527,158	1,327,453
Prepays and other receivables	89,935	1,439	91,374	154,908
Inventories	653,240	-	653,240	519,187
Total current assets	13,736,341	1,960,155	15,696,496	14,246,800
Restricted deposits and funded reserves	-	147,826	147,826	139,774
Restricted assets - held in trust	85,414	-	85,414	87,147
Bond issuance cost (net of accumulated amortization)	121,585	-	121,585	-
Property, plant, and equipment (net of accumulated depreciation)	10,160,649	870,442	11,031,091	8,572,061
Total assets	\$ 24,103,989	\$ 2,978,423	\$ 27,082,412	\$ 23,045,782

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Statements of Net Assets
June 30, 2008
(With Comparative Totals for June 30, 2007)

	Primary Government	Component Units	Total Reporting Entity	
			2008	2007
Continued:				
Liabilities and Net Assets				
Current liabilities:				
Current maturities of general note obligation	\$ 73,622	\$ 10,947	\$ 84,569	\$ 23,050
Short-term debt	-	-	-	2,600,000
Accounts payable	714,137	368,831	1,082,968	1,069,531
Accrued liabilities	95,318	-	95,318	91,161
Deferred revenues	82,835	-	82,835	29,336
Accrued payroll	163,080	-	163,080	157,189
Accrued interest payable	88,873	1,322	90,195	7,666
Total current liabilities	1,217,865	381,100	1,598,965	3,977,933
Long term liabilities:				
Compensated absences	1,292,161	-	1,292,161	1,249,886
General note obligation, net of current maturities	4,977,367	217,019	5,194,386	1,277,847
Total long term liabilities	6,269,528	217,019	6,486,547	2,527,733
Other liabilities:				
Liability for funds held in trust	85,414	-	85,414	87,147
Total liabilities	7,572,807	598,119	8,170,926	6,592,813
Net Assets				
Invested in capital assets, net of related debt	3,769,734	642,476	4,412,210	5,931,238
Unrestricted	12,761,448	1,737,828	14,499,276	10,521,731
Total net assets	16,531,182	2,380,304	18,911,486	16,452,969
Total liabilities and net assets	\$ 24,103,989	\$ 2,978,423	\$ 27,082,412	\$ 23,045,782

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Statements of Revenues and Expenses
For the Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)

	Primary		Total Reporting Entity	
	Government	Component Units	2008	2007
Operating revenues:				
State grants	\$ 6,378,413	\$ -	\$ 6,378,413	\$ 6,565,472
Local assessments	442,636	-	442,636	414,255
Contributions	20,079	-	20,079	22,432
Other local	137,789	-	137,789	108,348
Federal grants	1,384,345	-	1,384,345	1,354,675
Client, insurance and other fees	1,380,640	-	1,380,640	1,260,835
Medicaid/Medicare	17,409,985	-	17,409,985	15,423,581
Contract sales	9,108,461	-	9,108,461	6,620,119
Miscellaneous	157,729	49,114	206,843	330,544
Housing payments	-	21,258	21,258	20,976
Health care payments	-	2,837,679	2,837,679	2,587,517
Total operating revenue	36,420,077	2,908,051	39,328,128	34,708,754
Operating expenses:				
Personnel	22,025,463	-	22,025,463	20,137,036
Staff development	140,826	-	140,826	150,109
Facilities	1,332,054	16,517	1,348,571	1,264,253
Equipment and supplies	2,894,808	-	2,894,808	2,659,842
Travel	972,134	-	972,134	826,327
Contract services	5,640,230	2,864,746	8,504,976	4,788,783
Depreciation	529,373	34,446	563,819	552,158
Miscellaneous	455,051	4,489	459,540	538,667
Total operating expenses	33,989,939	2,920,198	36,910,137	30,917,175
Operating income (loss)	2,430,138	(12,147)	2,417,991	3,791,579
Nonoperating income (expense)				
Interest income	242,964	48,733	291,697	303,475
Interest expense	(230,580)	(20,591)	(251,171)	(116,874)
Total nonoperating income (expense)	12,384	28,142	40,526	186,601
Change in net assets	\$ 2,442,522	\$ 15,995	\$ 2,458,517	\$ 3,978,180

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD
Statements of Changes in Net Assets
For the Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)**

	Primary Government		Component Units	
	Unrestricted	Restricted	Unrestricted	Restricted
Net assets - beginning of year	\$ 14,088,660	\$ -	\$ 2,364,309	\$ -
Change in net assets	<u>2,442,522</u>	<u> </u>	<u>15,995</u>	<u> </u>
Net assets - end of year	<u>\$ 16,531,182</u>	<u>\$ -</u>	<u>\$ 2,380,304</u>	<u>\$ -</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Statements of Cash Flows
For the Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)

	Primary	Component	Total Reporting Entity	
	Government	Units	2008	2007
Cash flows from operating activities:				
Receipts from clients and users	\$ 19,042,189	\$ 2,908,051	\$ 21,950,240	\$ 19,457,055
Receipts from customers	9,212,298	-	9,212,298	6,795,448
Federal revenue	1,437,844	-	1,437,844	965,709
State revenue	6,370,017	-	6,370,017	6,546,272
Appropriations from local governments	509,403	-	509,403	298,056
Cash paid to suppliers for goods and services	(11,522,372)	(38,398)	(11,560,770)	(7,883,716)
Cash paid to employees and for benefits	(21,973,140)	(2,796,531)	(24,769,671)	(21,729,562)
Net cash provided (used) by operating activities	3,076,239	73,122	3,149,361	4,449,262
Cash flows from capital and related financing activities:				
Withdrawals from reserve accounts	-	2,420	2,420	897
Proceeds from borrowing	4,600,000	-	4,600,000	2,600,000
Principle payments on borrowed funds	(3,211,916)	(10,026)	(3,221,942)	(477,409)
Payments to reserve accounts	-	(10,354)	(10,354)	(9,606)
Net cash provided (used) by financing activities:	1,388,084	(17,960)	1,370,124	2,113,882
Cash flows from investing activities:				
Purchase of capital assets	(3,103,251)	(3,663)	(3,106,914)	(1,609,819)
Interest expense	(144,636)	(20,591)	(165,227)	(110,641)
Proceeds from interest income	247,903	48,733	296,636	297,404
Payment of bond issuance costs	(125,000)	-	(125,000)	-
Sale of investments	800,295	-	800,295	-
Purchase of investments	-	-	-	(1,263,530)
Net cash provided (used) by investing activities	(2,324,689)	24,479	(2,300,210)	(2,686,586)
Net increase (decrease) in cash	2,139,634	79,641	2,219,275	3,876,558
Cash and cash equivalents - beginning of year (includes restricted cash in the amount of \$29,284 for the Primary Government)	7,790,447	1,879,075	9,669,522	5,792,964
Cash and cash equivalents - end of year (includes restricted cash in the amount of \$35,343 for the Primary Government)	\$ <u>9,930,081</u>	\$ <u>1,958,716</u>	\$ <u>11,888,797</u>	\$ <u>9,669,522</u>
Supplemental Disclosures:				
Interest paid	\$ <u>144,636</u>	\$ <u>20,591</u>	\$ <u>165,227</u>	\$ <u>116,985</u>
Taxes paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Statements of Cash Flows
For the Year Ended June 30, 2008
(With Comparative Totals for June 30, 2007)

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total Reporting Entity</u>	
			<u>2008</u>	<u>2007</u>
Continued:				
Reconciliation of operating income (loss) to net cash provided (used) by operating activities per above				
Operating income / (loss)	\$ 2,430,138	\$ (12,147)	\$ 2,417,991	\$ 3,791,579
Adjustments to reconcile to net cash and cash equivalents provided / (used) by operating activities				
Depreciation expense	529,373	34,446	563,819	552,158
Loan amortization	3,415	-	3,415	-
Loss on disposal of assets	84,065	-	84,065	-
Changes in :				
Accounts receivable	39,803	-	39,803	(110,948)
Inventory	(134,053)	-	(134,053)	10,648
Prepaid expense and other receivables	54,826	236	55,062	(137,469)
Accounts payable	(37,150)	50,587	13,437	189,666
Accrued expenses	4,157	-	4,157	2,977
Deferred revenue	53,499	-	53,499	(388,966)
Accrued payroll	5,891	-	5,891	66,253
Compensated absences	42,275	-	42,275	473,364
Net cash provided (used) by operating activities	\$ <u>3,076,239</u>	\$ <u>73,122</u>	\$ <u>3,149,361</u>	\$ <u>4,449,262</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies

- A. Organization – The Mount Rogers Community Mental Health and Mental Retardation Services Board is a local government agency established under Chapter 10 of Title 37.1 of the Code of Virginia (1950 as amended) to implement and operate community mental health, mental retardation, and substance abuse programs in the Virginia counties of Bland, Carroll, Grayson, Smyth, and Wythe, and the City of Galax. The Board is made up of representatives of those jurisdictions. The Board is charged by the Virginia Department of Mental Health and Mental Retardation with providing a system of comprehensive community mental health, mental retardation, and substance abuse 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 abuse programs throughout the program area.
- B. Reporting Entity – The CSB has adopted the provisions of Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the CSB should report as a component unit based on the nature and significance of their relationship with the CSB. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. The financial statements include all funds, agencies, boards, commissions, and authorities that the CSB has determined should be included as a component unit. The component units discussed in Note C are included in the Board's reporting entity because of the significance of their operational or financial relationships with the Board.
- C. Discretely Presented Component Units – The component unit columns in the financial statements include the financial data of the Board's component units. They are reported in a separate column to emphasize that they are legally separate from the Board. The governing bodies of all component units are appointed by the Board and the Board has the ability to impose its will on the component units.
1. Mount Rogers Community Services Board, 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 Board, Inc.
 2. Mount Rogers CSB Employee Trust was created to provide health and dental benefits to the Board's employees. The Board sets rates and subsidizes the Trust fund as well as providing management functions. The Mount Rogers CSB Employee Trust does not issue separate financial statements.
- D. Financial Statement Presentation – Mount Rogers Community Mental Health and Mental Retardation Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes the CSB utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies - Continued

E. 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.

F. Property, Plant and Equipment – The CSB capitalizes and depreciates all capital assets that have a value of \$5,000 or greater. Property, plant and equipment purchased is stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation has been provided for capital assets and depreciated 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

G. 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.

H. Client Fees – Client fee 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 fee revenue as are charges for charity services.

I. Cash and Cash Equivalents – For purposes of the statement of cash flows, Mount Rogers Community Mental Health and Mental Retardation Services Board considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

J. Allowance for Uncollectible Accounts – Mount Rogers Community Mental Health and Mental Retardation Services 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 \$208,592 for 2008 and \$222,801 for 2007.

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

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

M. Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Board has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies – Continued

N. Risk Management – The Board is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Mount Rogers Community Mental Health and Mental Retardation Services Board is partially self-insured under a component unit Mount Rogers CSB Employee Trust. This is a professionally administered plan for hospitalization and medical expenses for all of Mount Rogers Community Mental Health and Mental Retardation Services Board full-time salaried employees. For 2007, claims of up to \$90,000 per covered individual per year are covered under the plan, and a reinsurer covers any excess. For 2008, this amount was \$90,000. The Company had estimated claims payable of \$367,142 for June 30, 2008 and \$317,792 for 2007. The Trust had assets of \$1,933,622 for 2008 and \$1,853,977 for 2007 to service claims, premiums, and administration charges.

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 Trigon. 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. Throughout the year, the third party payers reimburse the Department at a prearranged tentative payment amount.

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

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

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

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

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

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

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

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies – Continued

Q. Comparative Totals – Comparative totals are presented for informational purposes only.

2. Property and Equipment

A summary of property and equipment is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 330,925	\$ 80,670	\$ -	\$ 411,595
Depreciable assets:				
Real Estate	7,751,314	4,603,552	-	12,354,866
Equipment and Vehicles	3,138,904	344,401	84,066	3,399,239
Construction in progress	<u>1,988,304</u>	<u>2,646,365</u>	<u>4,634,669</u>	<u>-</u>
Total depreciable assets	12,878,522	7,594,318	4,718,735	15,754,105
Less: accumulated Depreciation	<u>(4,637,386)</u>	<u>(563,818)</u>	<u>66,595</u>	<u>(5,134,609)</u>
Net depreciable assets	<u>8,241,136</u>	<u>7,030,500</u>	<u>4,652,140</u>	<u>10,619,496</u>
Total capital assets	<u>\$ 8,572,061</u>	<u>\$ 7,111,170</u>	<u>\$ 4,652,140</u>	<u>\$ 11,031,091</u>

3. Cash and Investments

Deposits: All cash of the Board is maintained in accounts collateralized in accordance with the Virginia Security For Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of the FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investments: Statutes authorize the Community Service Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP), certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 year</u>
Mutual Funds	456,881	456,881
Local Government Investment Pool	70,277	70,277

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

3. Cash and Investments - Continued

The funds rated debt investments as of June 30, 2007 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Investment Type</u>	<u>AAA</u>	<u>Unrated</u>	<u>Total</u>
Mutual Funds	\$ -	\$ 456,881	\$ 456,881
Local Government Investment Pool	<u>70,277</u>	<u>-</u>	<u>70,277</u>
 Total	 <u>\$ 70,277</u>	 <u>\$ 456,881</u>	 <u>\$ 527,158</u>

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

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

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

The Board's investment policy does not address custodial credit risk, concentration of credit risk and interest rate risk.

4. Local Government Revenue

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

	<u>2008</u>	<u>2007</u>
Bland County	\$ 13,000	\$ 12,750
Carroll County	114,500	112,266
City of Galax	30,051	26,445
Grayson County	48,000	48,000
Smyth County	140,677	122,094
Wythe County	<u>96,408</u>	<u>92,700</u>
	 <u>\$ 442,636</u>	 <u>\$ 414,255</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**

Notes to Financial Statements

June 30, 2008

5. Long-term Debt

A summary of long-term debt follows:

	<u>2008</u>	<u>2007</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.	\$ 4,000,000	\$ -
Rural Development, initialized August 8, 2002, monthly principal and interest reductions totaling \$5,049.00 beginning August 8, 2004, interest only payments due for first two years, 4.5% interest rate, maturing August 8, 2042, secured by real estate	1,050,989	1,062,905
Virginia Housing Development Authority mortgage note Payable, 8.82% interest, monthly installments of \$2,551, Maturity August 1, 2020 secured by real estate	<u>227,966</u>	<u>237,992</u>
Total	<u>\$ 5,278,955</u>	<u>\$ 1,300,897</u>

Annual Requirements to Amortize Long-Term Debt

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 84,569	\$ 305,187
2010	71,230	319,643
2011	72,952	314,965
2012	79,836	309,995
2013	86,861	304,557
2014-2018	520,500	1,428,091
2019-2023	627,167	1,233,719
2024-2028	766,454	1,025,861
2029-2033	1,043,330	751,085
2034-2038	1,429,492	372,448
2039-2042	<u>496,564</u>	<u>27,324</u>
Total	<u>\$ 5,278,955</u>	<u>\$ 6,392,875</u>

A detail of long-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amount Current</u>
IDA of the County of Stafford and the City of Staunton	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 60,000
Rural Development note Payable	1,062,905	-	11,915	1,050,990	13,622
Virginia Housing Development Note payable	<u>237,992</u>	<u>-</u>	<u>10,027</u>	<u>227,965</u>	<u>10,947</u>
Total	<u>\$ 1,300,897</u>	<u>\$ 4,000,000</u>	<u>\$ 21,942</u>	<u>\$ 5,278,955</u>	<u>\$ 84,569</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

6. Short-term Debt

During the prior year, Mount Rogers Community Mental Health and Mental Retardation Services Board, entered into a loan agreement with the Industrial Development Authority of the County of Stafford and the City of Staunton, Virginia. This loan dated March 1, 2007 was for the issuance of Variable Rate Demand Revenue Bonds (VML/VACo Commercial Paper Program). The proceeds of the loan were used for real estate construction. This loan agreement was for a term of six months at which time all loan amounts was refinanced with long-term bonds. The Community Services Board was required to maintain a minimum of \$3,000,000 in liquid assets during the term of the financing. The maximum amount of financing is \$3,200,000. As of June 30, 2007 the amount of financing made available to the Community Services Board was \$2,600,000. During the current year, Mount Rogers Community Mental Health and Mental Retardation Services Board issued bonds with a portion was used to pay off this commercial paper debt.

A detail of short-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Commercial Paper	\$ <u>2,600,000</u>	\$ <u>600,000</u>	\$ <u>3,200,000</u>	\$ -
Total	\$ <u>2,600,000</u>	\$ <u>600,000</u>	\$ <u>3,200,000</u>	\$ -

7. Compensated Absences

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.

The Mount Rogers Community Mental Health and Mental Retardation Services Board has outstanding accrued vacation pay that totals \$787,969 and sick leave accrual of \$504,192 as of June 30, 2008. At June 30, 2007 the outstanding accrued vacation pay totaled \$740,367 and sick leave outstanding of \$509,519.

8. Surety Bond

Mount Rogers Community Mental Health and Mental Retardation Services Board maintains a surety bond insurance policy as part of its regular liability insurance. The insurance is maintained with Cincinnati Insurance Company and the amount of coverage is \$500,000.

9. Leased Facilities

All facilities utilized by the Board are reflected as operating leases in the financial statements. The annual lease payments on all facilities total \$269,488 in 2008 and \$288,253 in fiscal year 2007.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

10. Pension Plan

The Board has a defined contribution money purchase type pension plan, which covers all of its full-time staff employees. The contribution to the plan by the Board on behalf of each employee is fixed at 8% of the employees' base compensation, and employees may make supplemental contributions to the plan through payroll withholdings. The organization's payroll for employees covered by the plan for the year ended June 30, 2008 was \$11,914,275. Total payroll was \$16,633,905. The Board's total expenditures for contributions to the plan during fiscal year 2007 totaled \$953,142. The annual contribution for fiscal year 2007 totaled \$848,207, which was based on a total payroll of \$15,246,637.

11. Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria haven't been met. This represents a liability incurred by the Board for monies accepted from a grantor using the advance method for payment. This amount is composed of federal grant money received but not yet spent. The deferred revenue totaled \$82,835 in 2008 and \$29,336 in 2007. These amounts represent amounts deferred for federal grants.

12. Contingent Liabilities

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

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.

13. Fair Value of Financial Instruments

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

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

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

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

14. Restricted Assets – Held in Trust

The Board manages several client funds. The Board segregates these monies held on behalf of clients 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 \$85,414 at June 30, 2008 and \$87,147 at June 30, 2007.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Notes to Financial Statements
June 30, 2008

15. 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 at what time the entire amount of \$60,588 is accumulated and restricted. At June 30, 2008 an amount of \$35,343 has been reflected as restricted cash for this purpose. At June 30, 2007 this restricted amount was \$29,284.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Combining Statement of Net Assets - Component Units
June 30, 2008

	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,933,622	\$ 25,094	\$ 1,958,716
Prepays and other receivables	-	1,439	1,439
Restricted deposits and funded reserves	-	147,826	147,826
Property and equipment (net of accumulated depreciation)	-	870,442	870,442
Total assets	1,933,622	1,044,801	2,978,423
<u>Liabilities and Net Assets</u>			
Liabilities:			
Accounts payable	367,142	1,689	368,831
Accrued interest payable	-	1,322	1,322
Current Portion of Note Obligation	-	10,947	10,947
Total current liabilities	367,142	13,958	381,100
Long-term Liabilities:			
Note Obligation	-	217,019	217,019
Total Liabilities	367,142	230,977	598,119
Net Assets:			
Unrestricted	1,566,480	813,824	2,380,304
Total net assets	1,566,480	813,824	2,380,304
Total liabilities and net assets	\$ 1,933,622	\$ 1,044,801	\$ 2,978,423

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
**Combining Statement of Revenues, Expenses and
Change in Retained Earnings - Component Units**
For the Year Ended June 30, 2008

	<u>Employee Benefit Trust</u>	<u>Mount Rogers Community Services, Inc.</u>	<u>Total</u>
Operating revenues:			
Housing assistance payments	\$ -	\$ 21,258	\$ 21,258
Health care benefit payments	2,837,679		2,837,679
Other income	<u>2,740</u>	<u>46,374</u>	<u>49,114</u>
Total operating revenues	2,840,419	67,632	2,908,051
Operating expenses:			
Facilities	-	16,517	16,517
Contract services	2,850,420	14,326	2,864,746
Miscellaneous	1,600	2,889	4,489
Depreciation	<u>-</u>	<u>34,446</u>	<u>34,446</u>
Total operating expenses	<u>2,852,020</u>	<u>68,178</u>	<u>2,920,198</u>
Operating income (loss)	(11,601)	(546)	(12,147)
Other income (expense):			
Interest income	41,896	6,837	48,733
Interest expense	<u>-</u>	<u>(20,591)</u>	<u>(20,591)</u>
Total other income (expense)	<u>41,896</u>	<u>(13,754)</u>	<u>28,142</u>
Net income (loss)	30,295	(14,300)	15,995
Fund Balance Beginning of year	<u>1,536,185</u>	<u>828,124</u>	<u>2,364,309</u>
Fund Balance End of Year	<u>\$ 1,566,480</u>	<u>\$ 813,824</u>	<u>\$ 2,380,304</u>

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Combining Statements of Cash Flows - Component Units
For the Year Ended June 30, 2008

	Employee Benefit Trust	Mount Rogers Community Services, Inc.	Total
Cash flows provided / (used) by operating activities:			
Receipts from clients and users	\$ 2,840,419	\$ 46,374	\$ 2,886,793
Federal revenue	-	21,258	21,258
Cash paid to suppliers for goods and services	(6,139)	(32,259)	(38,398)
Cash paid to employees and for benefits	(2,796,531)	-	(2,796,531)
Net cash provided (used) by operating activities	<u>37,749</u>	<u>35,373</u>	<u>73,122</u>
Cash flows provided / (used) by capital and related financing activities:			
Withdrawals from reserve accounts	-	\$ 2,420	\$ 2,420
Principle payments on borrowed funds	-	(10,026)	(10,026)
Payments to reserve accounts	-	(10,354)	(10,354)
Net cash provided (used) by financing activities:	<u>-</u>	<u>(17,960)</u>	<u>(17,960)</u>
Cash flows provided / (used) by investing activities:			
Purchase of capital assets	-	\$ (3,663)	\$ (3,663)
Interest expense	-	(20,591)	(20,591)
Proceeds from interest income	41,896	6,837	48,733
Net cash provided (used) by investing activities	<u>41,896</u>	<u>(17,417)</u>	<u>24,479</u>
Net increase (decrease) in cash	79,645	(4)	79,641
Cash and cash equivalents - beginning of year	<u>1,853,977</u>	<u>25,098</u>	<u>1,879,075</u>
Cash and cash equivalents - end of year	<u>\$ 1,933,622</u>	<u>\$ 25,094</u>	<u>\$ 1,958,716</u>
Supplemental Disclosures:			
Interest paid	<u>-</u>	<u>20,591</u>	<u>20,591</u>
Taxes paid	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of operating income to net cash provided / used by operating activities per above			
Operating income	(11,601)	(546)	(12,147)
Adjustments to reconcile to net cash and cash equivalents from operating activities			
Depreciation expense	-	34,446	34,446
Prepaid expense and other receivables	-	236	236
Accounts payable	49,350	1,237	50,587
Net cash from operating activities	<u>37,749</u>	<u>35,373</u>	<u>73,122</u>

SUPPLEMENTAL INFORMATION

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD
Schedule of Expenditures of Federal Awards
For Year Ended June 30, 2008**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Passthrough Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services: Block grants for Community Mental Health Services	93.958		\$ 269,346
Block grants for Prevention and Treatment of Substance Abuse	93.959		746,023
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		1,875
Department of Homeland Security: Crisis Counseling and Training	97.032		55,543
Department of Education: Infants and Toddlers with Disabilities	84.181		177,075
Department of Transportation: Capital Assistance Program for Elderly Persons And Persons with Disabilities	20.513		<u>74,011</u>
	Total		<u>\$ 1,323,873</u>

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**
Schedule of Insurance
Year Ended June 30, 2008

<u>Insurance Coverage</u>	<u>Insurance Company and Agent</u>	<u>Policy Period</u>	<u>Limits of Liability</u>	<u>Deductible</u>	<u>Annual Premium</u>
Automobile	VA Risk 2	7/1/07-6/30/08	1,000,000	BI/PD, Uninsured Motorist Medical Payments	1,000 34,971
Boiler & Machinery	Cincinnati Slemp-Brant	7/1/07-6/30/08	1,000,000	Direct Damage, Business Income	1,000 Included in Gen. Liab.
Crime	Cincinnati Slemp-Brant	7/1/07-6/30/08	500,000	Employee Dishonesty, Forgery Alteration, Money & Securities	N/A 1,769
Data Processing	Cincinnati Slemp-Brant	7/1/07-6/30/08	317,000 45,000 94,000	Equipment Data & Media Extra Expense	1,000 1,441
General Liability	Cincinnati Slemp-Brant	7/1/07-6/30/08	2,000,000 1,000,000 10,000	Aggregate Occurance Medical	N/A 2,692
Medical Malpractice	VA Risk 2	7/1/07-6/30/08	1,925,000 Unlimited	Occurance Aggregate	1,000 23,614
Public Officials	VA Risk 2	7/1/07-6/30/08	1,000,000 Unlimited	Occurance Aggregate	1,000 2,125
Property	Cincinnati Slemp-Brant	7/1/07-6/30/08	14,630,500 2,913,500 460,000	Real Property Personal Property Business Income	1,000 41,399
Umbrella	Cincinnati Slemp-Brant	7/1/07-6/30/08	1,000,000 2,000,000 2,000,000 1,000,000	Occurance Aggregate Completed Products Pers/Advertising	N/A 9,026
Workers Comp	Virginia Municipal League	7/1/07-6/30/08	1,000,000 1,000,000 1,000,000	Each Accident Policy Limit - disease Each Employee - disease	N/A 153,307
Employee Benefit Liability	Cincinnati Slemp-Brant	7/1/07-6/30/08	1,000,000 3,000,000	Occurance Aggregate	1,000 Included in <u>Gen. Liab.</u>
Total					<u>270,344</u>

COMPLIANCE REPORTS

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 MENTAL HEALTH AND MENTAL RETARDATION SERVICES BOARD WYTHEVILLE, VIRGINIA

We have audited the financial statements of the Mount Rogers Community Mental Health and Mental Retardation Services Board (Board) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of 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*.

We noted certain matters that we reported to management of the Mount Rogers Community Mental Health and Mental Retardations Services Board in a separate letter dated September 5, 2008.

This report is intended solely for the information and use of management, the Board, others within the entity and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
September 5, 2008

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF DIRECTORS MOUNT ROGERS COMMUNITY MENTAL HEALTH AND MENTAL RETARDATION SERVICES BOARD WYTHEVILLE, VIRGINIA

COMPLIANCE

We have audited the compliance of the Mount Rogers Community Mental Health and Mental Retardation Services Board with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Mount Rogers Community Mental Health and Mental Retardation Services Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Mount Rogers Community Mental Health and Mental Retardation Services Board's management. Our responsibility is to express an opinion on the Mount Rogers Community Mental Health and Mental Retardation Services Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mount Rogers Community Mental Health and Mental Retardation 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. Our audit does not provide a legal determination of the Mount Rogers Community Mental Health and Mental Retardation Services Board's compliance with those requirements.

In our opinion, the Mount Rogers Community Mental Health and Mental Retardation Services Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Mount Rogers Community Mental Health and Mental Retardation Services Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mount Rogers Community Mental Health and Mental Retardation Services Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be material weakness, as defined above.

This report is intended solely for the information of the Board, management, and federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
September 5, 2008

**MOUNT ROGERS COMMUNITY MENTAL HEALTH
AND MENTAL RETARDATION SERVICES BOARD**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

 Material weaknesses identified? No

 Significant deficiencies identified that are not
 considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

 Material weaknesses identified? No

 Significant identified that are not
 considered to be material weaknesses? None Reported

Type of auditor’s report issued on compliance for major programs Unqualified

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

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

#93.959

Block Grants for Prevention and
Treatment of Substance Abuse

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

Auditee qualified as a low risk auditee? Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None