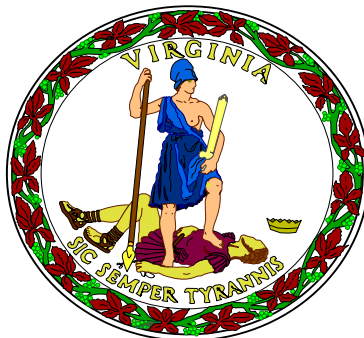


# Commonwealth of Virginia

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Department of Mental Health, Mental Retardation and  
Substance Abuse Services

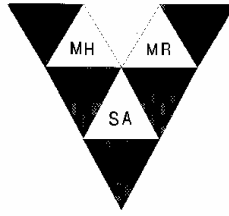
## Annual Financial Report Fiscal Year 2008



James S. Reinhard, M.D.  
Commissioner

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



**TRANSMITTAL LETTER**

***TO USERS AND READERS OF OUR FINANCIAL STATEMENTS***

We are pleased to provide the Annual Financial Report for the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department") for the fiscal year ended June 30, 2008. This report contains informative financial and statistical data about the Department, which includes the Central Office, sixteen (16) state operated facilities, and funding for forty (40) community services boards. 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, 2008 are presented in accordance with the enterprise fund model as required by Governmental Accounting Standards Board (GASB) Statement Number 34, "*Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*". 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. This Annual 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  
January 31, 2009

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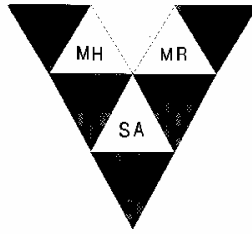
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**DMHMRSAS' MISSION STATEMENT:**

*“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.”*

---

**DMHMRSAS VISION STATEMENT:**

***ENVISION THE POSSIBILITIES***

*“Our vision is of a community-based system of services that promotes self-determination, empowerment, recovery, and the highest possible level of consumer participation in work, relationships, and all aspects of community life. The eight foundations of this vision include the following”*

- *Self-determination, Empowerment & Recovery*
- *Accountability*
- *Access to services*
- *Quality of Services*
- *Partnerships*
- *Coordination*
- *Funding*
- *Efficient Use of Resources*

***Timothy M. Kaine***

Governor, Commonwealth of Virginia

***Marilyn B. Tavenner***

Secretary of Health and Human Resources

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

Commissioner

**STATE BOARD MEMBERS (2008-2009)**

**Karnes, Daniel**  
**(Chair)**  
Roanoke, VA

**Jarvis, Ruth**  
**(Vice-Chair)**  
Norfolk, VA

**Goddard, Andrew**  
Richmond, VA

**Green, Cheryl**  
Richmond, VA

**Hudgins, Catherine**  
Reston, VA

**Little, Jennifer**  
Cobbs Creek, VA

**McQuown, Mary**  
Chesapeake, VA

**Pandurangi, Anand**  
Richmond, VA

**Smith, Kay**  
Martinsville, VA

**Crosby, Jewel**  
**(Board Secretary)**  
Richmond, VA

**SENIOR MANAGEMENT TEAM (June 2008)**

**Raymond R. Ratke**  
Deputy Commissioner

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

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

**Teja Stokes**  
Assistant Commissioner,  
Special Projects

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

**Charline A. Davidson**  
Director, Planning and  
Development

# Management's Discussion and Analysis

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(unaudited)

### **For the Fiscal Year Ending June 30, 2008**

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, 2008. 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 and note disclosures.

#### **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 its financial position is improving or deteriorating.

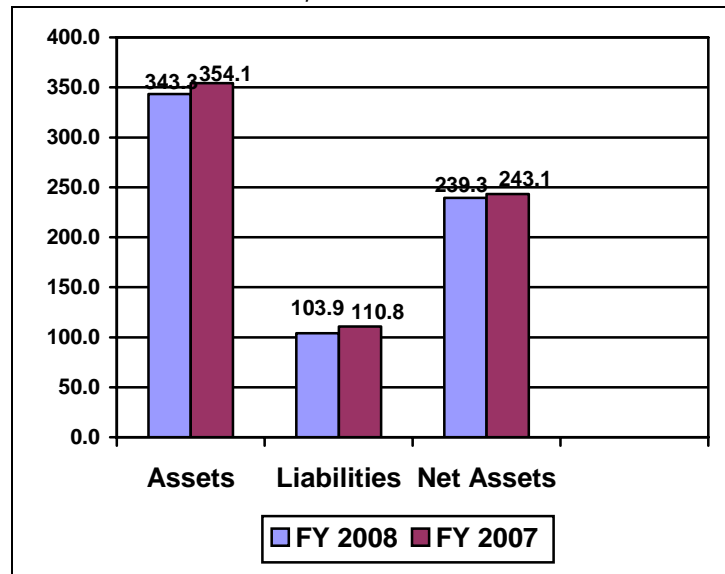
The Department's net assets decreased by approximately \$3.8 million (1.6%) from \$243 million to \$239 million. This decrease in net assets was attributable to many factors. The most significant changes were increases in Cash with the Treasurer of Virginia, Patient Accounts Receivable, and Property, Plant and Equipment and decreases in Cost Settlements Receivable, Capital Outlay Funds, Restricted Cash, and Accounts Payable.

**Note: Readers should refer to the Financial Statement Section for additional information.**

**Statement of Net Assets**

Description	2008	2007	% Change
Current Assets	\$143,907,483	\$128,994,155	11.6
Non-current Assets	9,789,566	120,454,655	-91.9
Property and Equipment	189,564,913	104,608,083	81.2
<b>Total Assets</b>	<b>\$343,261,962</b>	<b>\$354,056,893</b>	<b>-3.0</b>
Current Liabilities	40,312,967	46,047,510	-12.5
Non-current Liabilities	63,646,336	64,822,710	-1.80
<b>Total Liabilities</b>	<b>\$103,959,303</b>	<b>\$110,870,220</b>	<b>-6.20</b>
Invested in Capital Assets	189,564,913	104,608,083	81.2
Unrestricted Net Assets	69,336,276	56,920,781	21.8
Restricted Net Assets	-19,925,560	81,363,542	-124.5
Retained Earnings	327,030	294,267	11.1
<b>Total Net Assets</b>	<b>\$239,302,659</b>	<b>\$243,186,673</b>	<b>-1.6</b>

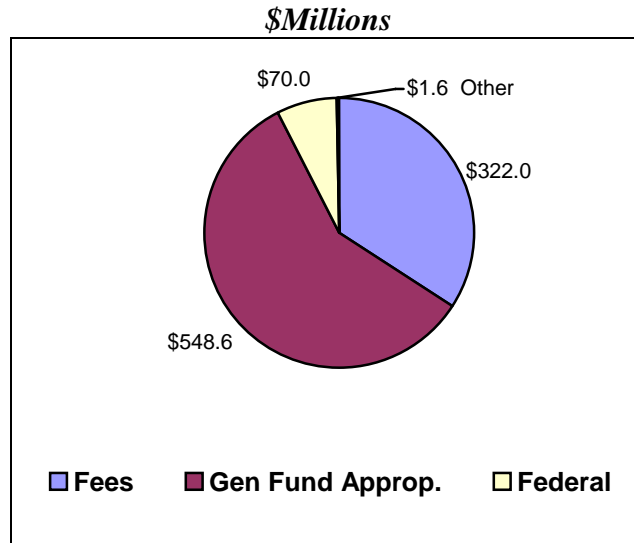
**ASSETS, LIABILITIES, NET ASSETS**  
\$Millions



**Statement of Revenues, Expenses and Changes in Net Assets:** This financial statement presents the operating results of the Department for the fiscal year ended June 30, 2008. 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.

Total revenues increased \$57.8 million (6.54%) to \$942.2 million. Net Patient Service Revenue increased \$18.5 million and Appropriations from the Commonwealth increased \$39.2 million. Federal revenues increased \$1 million. The increase in Net Patient Service Revenue is attributed to several factors including changes in gross charges, third party cost settlement receivables, charity allowances, and contractual adjustments. These are disclosed in Note 9.

**FY 2008 TOTAL REVENUES (GAAP BASIS)**  
**(Operating & Non-Operating)**  
**\$942.2 Million Total**



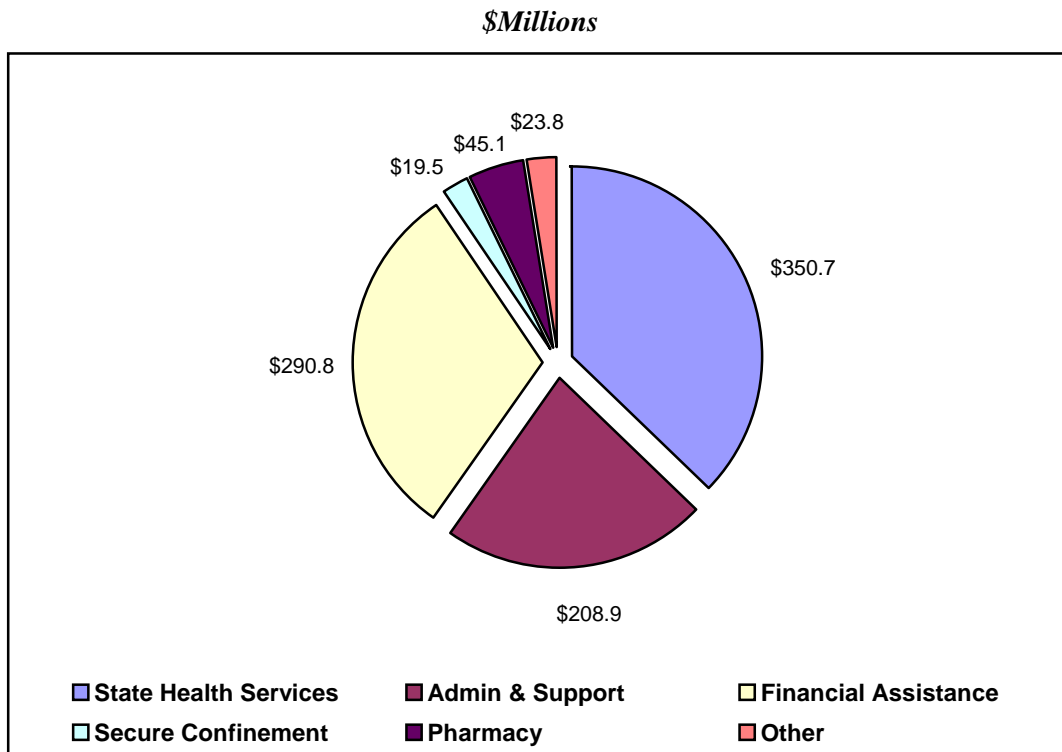
<b>Revenues (in Millions)</b>	<b>2008</b>	<b>2007</b>
Net Patient Service (Fees)	\$322.0	\$303.5
Gen Fund Appropriation	548.6	509.4
Federal	70.0	69.0
Other	1.6	2.5
<b>Total Revenues</b>	<b>\$942.2</b>	<b>\$884.4</b>

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 2008 and 2007 were as follows (in millions).

<b>Expense Program</b>	<b>2008</b>	<b>%</b>	<b>2007</b>	<b>%</b>
State Health Services	\$350.7	37	\$346.0	39
Financial Assistance for Health Services	290.8	31	277.9	31
Administrative & Support Services	208.9	22	201.6	22
Secure Confinement	19.5	2	17.4	2
Instruction	8.0	1	8.0	1
Pharmacy	45.1	5	33.0	4
Inspection Activities	.5	0	.5	0
Depreciation Expenses	8.7	1	9.7	1
Other Program Expenses	6.6	1	2.6	0
<b>Total Expenses</b>	<b>\$938.8</b>	<b>100</b>	<b>\$896.7</b>	<b>100</b>

Total expenses increased \$42.1 million (5 %) to \$938.8 million. The increase is primarily due to salary increases to state employees and increases in Financial Assistance for Health Services and Pharmacy.

**FY 2008 EXPENSES (GAAP BASIS)**  
**\$938.8 Million Total Expenses**



**Expense Program Descriptions:** See Notes to Financial Statements (Note 17).

**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.

Overall, cash decreased \$104.5 million for the year. This was a result of changes in cash flows in operating activities, non-capital financing activities, and capital financing activities as described below.

The department used \$204.9 million in net cash to conduct its operating activities for fiscal year 2008. Receipts from Patient Services amounted to \$311.6 million of cash inflow and Payments to Employees of \$485.5 million and Payments to Suppliers of \$32.1 million comprised the balance of the cash outflow.

The net cash from Non-capital Financing Activities amounted to \$211.2 million. General Fund appropriations were \$548.6 million and federal grant subsidies were \$70 million. Payments to Community Programs resulted in a cash outflow of \$291 million. The remaining net outflows were primarily for restricted expenditures.

The net cash used by Financing Activities amounted to \$110.8 million. This included \$30.8 million in revenue bond proceeds and \$54.4 million in capital appropriations. Capital and energy performance contract outflows totaled \$83.7 million and transfers amounted to \$112.3 million.

**BUDGETARY HIGHLIGHTS**

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

<b>Budget (in Millions)</b>	<b>2008</b>	<b>2007</b>
State General Funds	\$548.6	\$509.4
Special Revenue Funds	313.1	284.6
Federal Funds	71.1	66.0
<b>Final Operating Appropriation</b>	<b>\$932.8</b>	<b>\$860.0</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 Finance and 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. A small percentage of federal funds are retained in the central office in order to cover the cost of federal grants administration. Those not passed through are administered by some of the Department's sixteen inpatient facilities. Federal Funds increased \$5.1 million or 7% in FY 2008 to \$71.1 million.

Of the Department's operating budget of \$932.8 million, \$922.9 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 2008 and 2007 (in millions):

<b>Budgetary Expenditures (In Millions)</b>	<b>2008</b>	<b>2007</b>
State Health Services	\$347.6	\$317.5
Financial Assistance for Health Services (CSB funding)	291.0	277.6
Administration and Support Services	210.5	196.4
Secure Confinement	19.9	16.8
Pharmacy	42.7	37.3
Other Programs	11.2	11.6
<b>Total Budgetary Expenditures</b>	<b>\$922.9</b>	<b>\$857.2</b>

The overall increase in budgetary expenditures was 7.7%, which was primarily due to salary regrades, state employee cost of living increases, and increases in pharmacy and secure confinement.

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

The Department's net capital assets (net of accumulated depreciation) totaled \$189.6 million. This amount represents an increase of \$85 million or 81% from the previous fiscal year. The net increase is primarily due to the completion of Eastern State Hospital's Hancock Geriatric Center and the new Virginia Center for Behavioral Rehabilitation facility located in Burkeville. The information below details the composition of the Department's capital assets (in millions):

	<b><u>FY 2008</u></b>	<b><u>FY 2007</u></b>
Land	\$14.8	\$14.8
Infrastructure	12.1	9.4
Equipment	44.3	41.6
Buildings	330.4	236.9
Construction in Progress	17.4	27.7
Accumulated Depreciation	<u>(229.4)</u>	<u>(225.8)</u>
<b>Net Capital Assets</b>	<b>\$189.6</b>	<b>\$104.6</b>

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, life safety code modifications, and funds for specific construction projects. For fiscal year 2008 the Department's capital outlay budget was \$306.8 million of which \$77.6 million was expended. The capital outlay budget increased 57% from the prior year and expenditures increased 79%. As note above, these increases are due to the completion of our new facility for sexually violent predators, Virginia Center for Behavioral Rehabilitation, and the geriatric building at Eastern State Hospital.

## **ECONOMIC FACTORS AFFECTING THE DEPARTMENT**

In fiscal year 2008, Virginia's economy weakened as it mirrored the national economy's slowdown. The Commonwealth's growth rate was just below the national growth rate for the second consecutive year since 1996. Virginia's personal income in current dollars grew by just 4.4 percent, the lowest growth in the four previous years. Although higher in fiscal year 2008 than in prior years, unemployment in Virginia was only 3.4 percent, in comparison with the national average, which was 4.9 percent. During fiscal year 2008, new housing in Virginia again fell by 28 percent. Overall, Virginia's economic decline was not as severe as for the nation as a whole.

# System Characteristics

**SYSTEM CHARACTERISTICS OF THE DEPARTMENT**

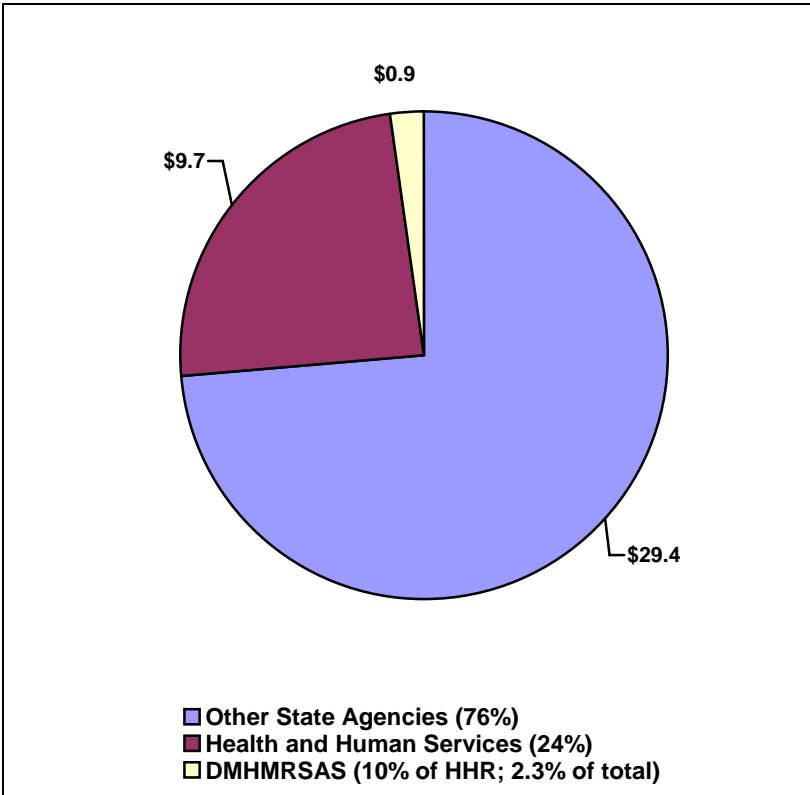
The Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services (the "Department" or DMHMRSAS) consists of ten mental health facilities, five training centers for the mentally retarded, one medical center, and a Central Office. The Department also funds forty community services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

This section of the Annual Financial Report presents budgetary information and overall systems funding information for FY 2008 to provide the reader with a perspective of the size of the service delivery system in which the Department operates.

The Department is organized under the Secretary of Health and Human Resources. Appropriations for the Secretary of Health and Human Resources represented approximately 24% of the Commonwealth of Virginia's \$40 billion final operating appropriation for FY 2008. 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 \$932.8 million (excluding capital outlays) and final budgetary operating expenditures were \$922.9 million.

**FY 2008 BUDGET**

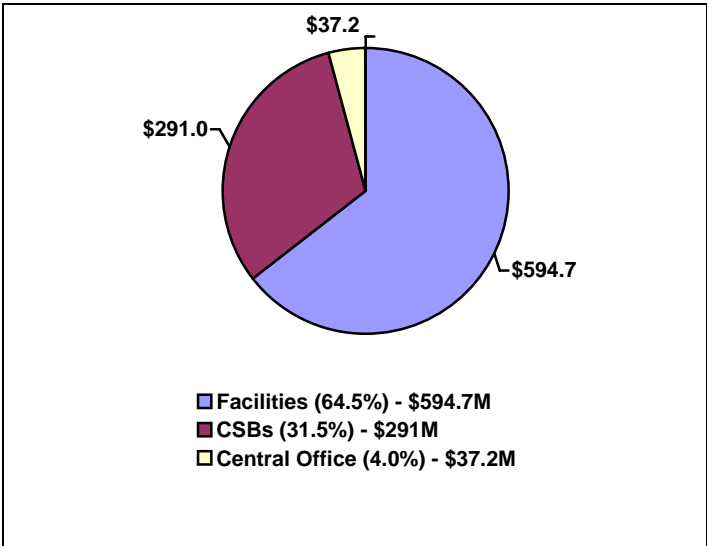
**COMMONWEALTH OF VIRGINIA  
\$40 Billion (Final Operating Appropriation)**



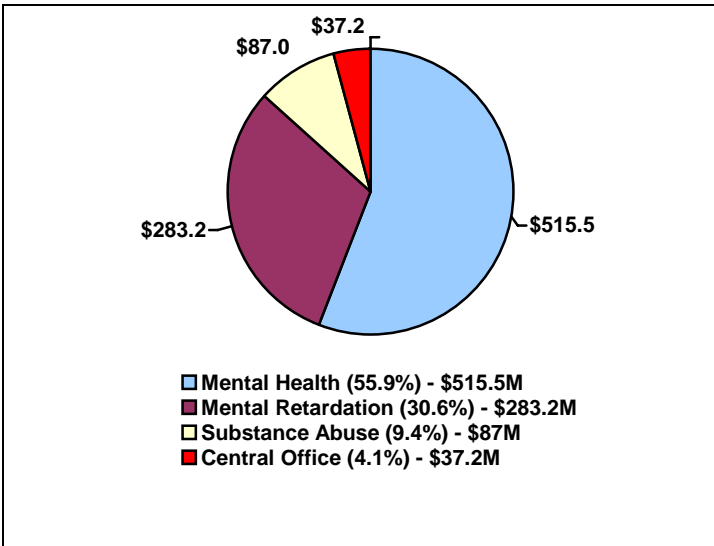
The following charts present FY 2008 final budgetary expenditures for all facilities, CSBs, and the Central Office. Also presented are expenditures by program area: Mental Health, Mental Retardation, Substance Abuse, Administration and Support, and the Central Office.

**FY 2008 BUDGETARY EXPENDITURES**

**FACILITIES, CSBs, CENTRAL OFFICE**  
\$922.9 Million Total Expenditures



**BY PROGRAM**  
\$922.9 Million Total Expenditures

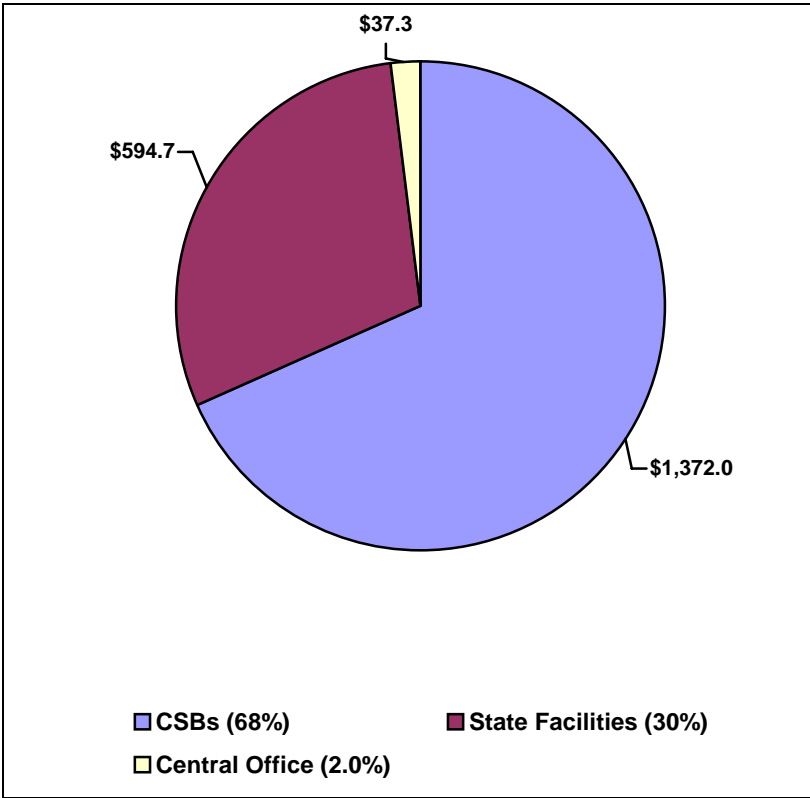


**BUDGETARY EXPENDITURES (\$922.9 M) vs. GAAP EXPENSES (\$938.8 M):** As noted in the Introduction, budgetary expenditures differ from GAAP expenses due to accounting estimates of revenues earned but not yet received and expenses incurred but not yet paid on the GAAP basis versus cash received and paid on the budgetary basis.

The following chart is provided to present a service systems funding overview for FY 2008 and includes total funding available for publicly funded mental health, mental retardation and substance abuse services within the Commonwealth. Total Services Systems Funding is defined as amounts for the operation of DMHMRSAS Facilities, Central Office, CSBs, and Medicaid funds for related community services. CSB funding includes amounts provided by the federal, state, and local governments, and includes Medicaid, Medicare, and other fees.

***FY 2008 – TOTAL SERVICES SYSTEMS FUNDING***  
***CSBs, Facilities, Central Office***

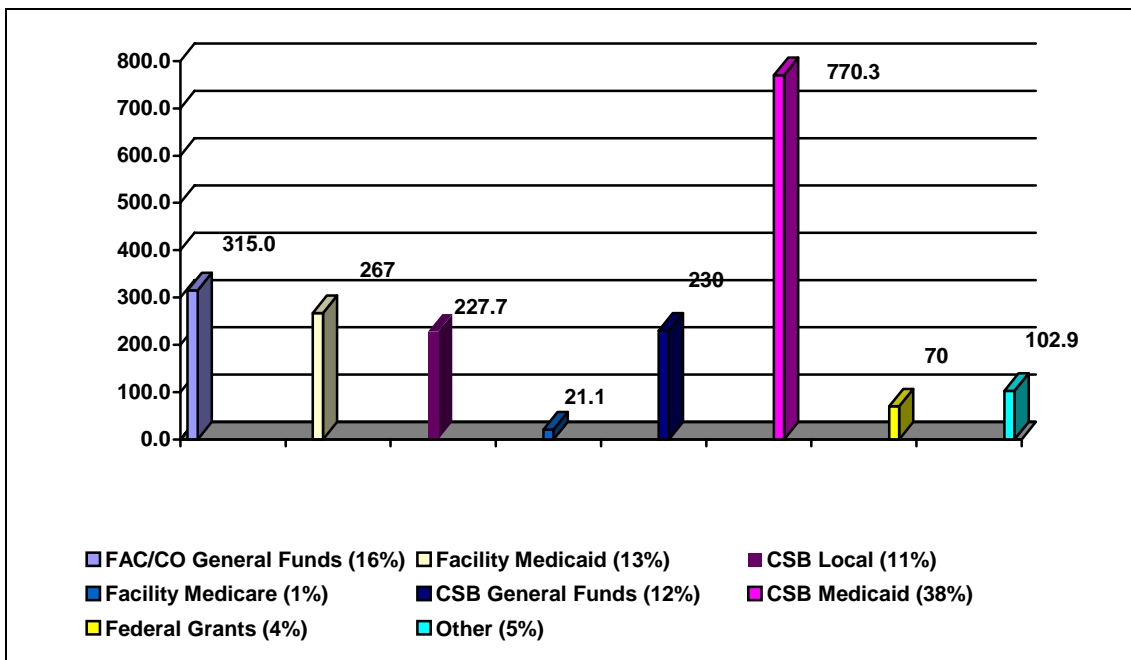
**Grand Total \$2.004 Billion**



The following chart presents total services systems funding for FY 2008 by funding source for Community Services Boards (CSBs), State Facilities, and the DMHMRSAS Central Office.

**TOTAL SERVICES SYSTEM FUNDING – FY 2008**  
**GENERAL FUND, MEDICAID SOURCES, FEDERAL, LOCAL**

**GRAND TOTAL \$2.004 BILLION**



Funding Source	\$ Millions	%
CSB Medicaid	\$770.3	38
Facility/CO General Fund	315.0	16
Facility Medicaid	267.0	13
CSB General Fund	230.0	12
CSB Local Govt.	227.7	11
Other (Fees, Insurance)	102.9	5
Federal Grants	70.0	4
Facility Medicare	21.1	1
<b>Total</b>	<b>\$2,004.0</b>	<b>100</b>

Source: DMHMRSAS' Office of Budget and Financial Reporting

## COMMUNITY SERVICES BOARDS

Community services boards or CSBs and behavioral health authority or BHA mean the public bodies organized in accordance with the relevant provisions of Chapter 5 or 6, respectively, of Title 37.2 of the *Code of Virginia* as well as the agencies (staff) that provides direct and contracted mental health, mental retardation, and substance abuse services to individuals with mental health or substance use disorders or intellectual disability in their localities. Listed below are the forty community services boards serving Virginia residents.

### Virginia Community Services Boards

Alexandria	Highlands
Alleghany Highlands	Loudoun County
Arlington County	Middle Peninsula-Northern Neck
Blue Ridge Behavioral Healthcare	Mount Rogers
Central Virginia	New River Valley
Chesapeake	Norfolk
Chesterfield	Northwestern
Colonial	Piedmont
Crossroads	Planning District One Behavioral Health Services
Cumberland Mountain	Portsmouth Dept. of Behavioral Healthcare Services
Danville-Pittsylvania	Prince William County
Dickenson County Behavioral Health Services	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

There are three types of CSBs, depending on their relationships with the local governments that established them. There are 28 operating CSBs and one BHA, which employ their own staff, are not city or county departments, and function independently of their local governments. There are 10 administrative policy CSBs, which use local government staff to provide services and function as local government departments (eight of these CSBs are actual city or county departments). There is one policy-advisory CSB with a local government department. Board members are appointed by the city councils and boards of supervisors that established the CSB. Slightly more than 11,800 CSB staff and thousands of contract agency staff work within the CSB system to serve 200,000 individuals with mental health or substance use disorders or intellectual disability annually.

## 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.

## 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 operates five training centers for people with mental retardation and one medical center. Overall, the Department has more than 400 buildings. As of June 30, 2008, the Department consisted of 8,866 employees and the facility daily average patient census was 2,917. The daily average patient census for each facility is presented below. Employee and census information are also presented for a period spanning 38 years in the charts that follow.

Virginia's State Hospitals

<u>Facility</u>	<u>Description</u>
<b>Catawba Hospital</b> Director: Jack L. Wood, MBA, VCO Facility Administrator: Charles C. Law, MHA Finance Director: Cecil Hardin, CPA	Located in Catawba, Virginia, this facility provides care to patients and short-term care to adults from nearby communities. The FY 2008 daily average patient census was 103.
<b>Central State Hospital</b> Director: Charles Davis, MD Facility Administrator: David Chu Finance Director: Peter Lehman	Located in Petersburg, Virginia, this facility provides inpatient adult psychiatric services as well as forensic and adolescent psychiatric services. The FY 2008 daily average patient census was 245.
<b>Eastern State Hospital</b> Director: John M. Favret Facility Administrator: Martin S. Kline Finance Director: Cliff Love	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 2008 daily average patient census was 400.
<b>Commonwealth Center for Children and Adolescents</b> Director: William J. Tuell, RN, MSN Facility Administrator: Vickie Hite Finance Director: Vickie Hite	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 2008 daily average patient census was 33.
<b>Northern Virginia Mental Health Institute</b> Director: R. Maximilien Del Rio, MD, JD, MPH, FCLM Facility Administrator: Richard Lopez, MBA Finance Director: John Poffenbarger	Located in Falls Church, Virginia, this facility provides acute psychiatric care. The FY 2008 daily average patient census was 120.
<b>Piedmont Geriatric Hospital</b> Director: Stephen M. Herrick, Ph.D. Fac. Administrator: Jim Ayers Finance Director: Lynne Inge	Located in Burkeville, Virginia, this hospital provides care for geriatric patients. The FY 2008 daily average patient census was 119.
<b>Southern Virginia Mental Health Institute</b> Director: David M. Lyon, MBA Facility Administrator: Wayne Peters Finance Director: Wayne Peters	Located in Danville, Virginia, this facility provides short-term acute psychiatric care. The FY 2008 daily average patient census was 68.
<b>Southwestern Virginia Mental Health Institute</b> Director: Cynthia McClaskey, Ph.D. Facility Administrator: Amanda Currin Finance Director: Lonzo Lester, Jr.	Located in Marion, Virginia, this facility provides acute and long-term care for adolescents, adults, and geriatrics. The FY 2008 daily average patient census was 161.
<b>Western State Hospital</b> Director: Jack Barber, MD Facility Administrator: David Mawyer Finance Director: Jon Chapman	Located in Staunton, Virginia, this hospital provides inpatient adult psychiatric services. The FY 2008 daily average patient census was 231.

**Virginia Center for Behavioral Rehabilitation**

Director: Clarence C. Murphy  
Assistant Director: Eric Aldridge  
Finance Director: Edwina Camden

Located in Burkeville, Virginia, this facility was established July 1, 2003 and moved to its current location in February 2008. The purpose of VCBR 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. The FY 2008 daily average patient census was 60.

**Virginia's Training Centers**

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.

<b><u>Facility</u></b>	<b><u>Description</u></b>
<b>Central Virginia Training Center</b> Director: Denise D. Micheletti, MSA, RN Facility Administrator: Charles Felmlee Finance Director: Charles Felmlee	Located in Lynchburg, Virginia, this center provides inpatient services to residents who are severely and profoundly retarded. The FY 2008 daily average patient census was 473.
<b>Northern Virginia Training Center</b> Director: Mark Diorio, Ph.D. Facility Administrator: Philippe Peter Finance Director: Catherine Kost, CPA	Located in Fairfax, Virginia, this center serves residents with moderate to profound mental retardation. The FY 2008 daily average patient census was 171.
<b>Southeastern Virginia Training Center</b> Director: Robert D. Shrewsberry, Ph.D. Facility Administrator: Brian Whitesell Finance Director: Frank Sivieri	Located in Chesapeake, Virginia, this center serves individuals with severe to profound mental retardation. The FY 2008 daily average patient census was 179.
<b>Southwestern Virginia Training Center</b> Director: Dale Woods, Ed.D. Facility Administrator: John W. Jones, Jr. Finance Director: Karen Hash	Located in Hillsville, Virginia, this center serves persons with severe to profound mental retardation and multiple disabilities. The FY 2008 daily average patient census was 203.
<b>Southside Virginia Training Center</b> Director: John A. Holland, M.D. Facility Administrator: William Hawkins Finance Director: Bob Kaufman	Located in Petersburg, Virginia, center serves individuals with severe to profound mental retardation and varying physical disabilities. The FY 2008 daily average patient census was 301. This facility provides administrative and operational support to Central State Hospital and Hiram Davis Medical Center.

**Medical Center**

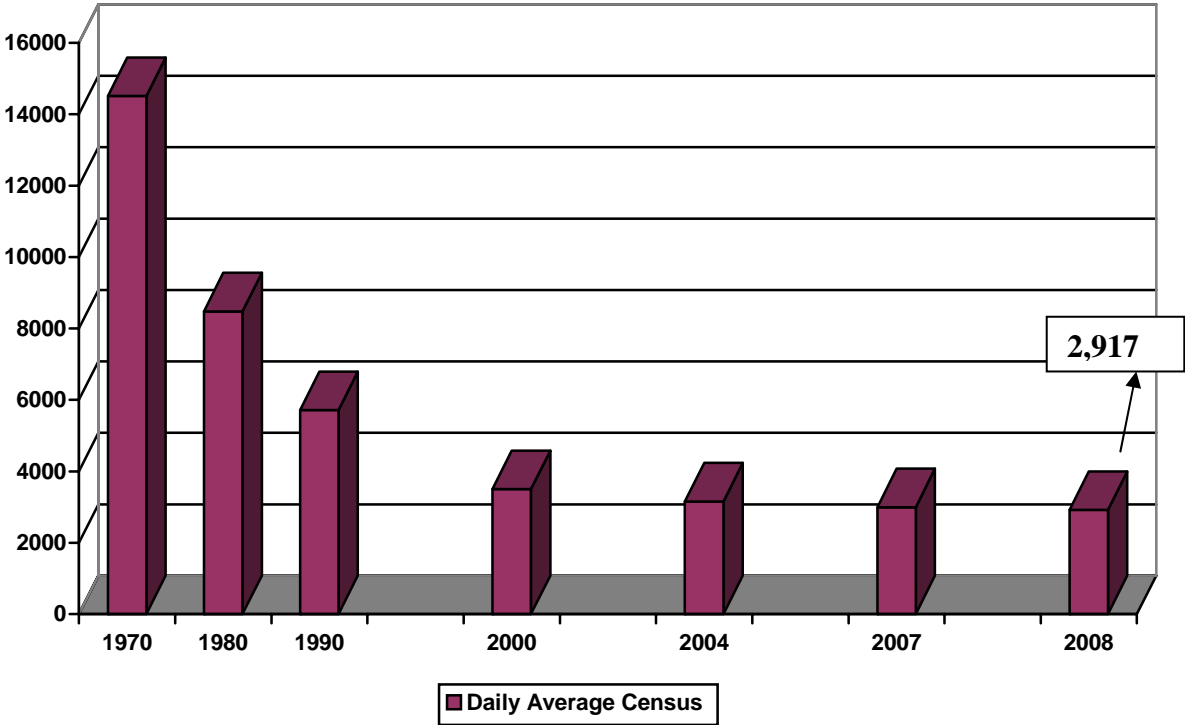
**Hiram Davis Medical Center**  
Operations Director: Brenda Buenvenida  
Facility Administrator: Brenda Buenvenida  
Finance Director: Bob Kaufman

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 2008 daily average patient census was 50.

**STATE FACILITIES STATISTICS**

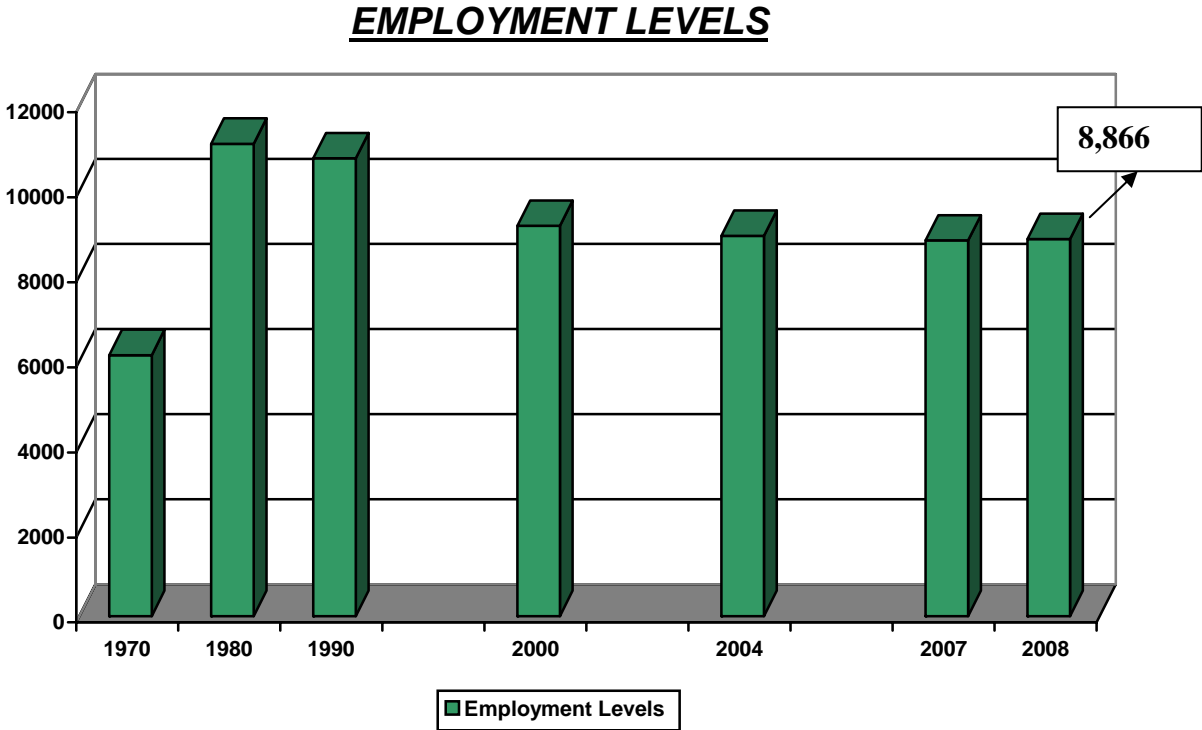
The following chart presents selected patient census levels over the past 38 years. As can be noted, the Daily Average Census levels have been steadily declining since 1970 with a gradual leveling since 2000. In 1970, the Daily Average Census was 14,514 and in 2008 the Daily Average Census was 2,917.

**PATIENT CENSUS**



Source: “Comparative Analysis-Operating Statistics and Costs” and “Ten Year Expenditure Analyses.” DMHMRSAS Office of Budget and Financial Reporting

The following chart presents selected employment levels over the past 37 years. Employment levels have been declining since 1980. The 1980 level was 11,106 and the 2008 level was 8,866. These employment levels include all DMHMRSAS operations (facilities, central office, and Inspector General).



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

**Note:** Employment levels presented above are employees on payroll at the end of the fiscal year and the average number of employees for FY 2008 was 8,876. 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. Since 2004, DMHMRSAS has operated 16 facilities.

# Financial Statements

**Virginia Department of Mental Health, Mental Retardation  
and Substance Abuse Services  
Statement of Net Assets  
For Fiscal Year Ended June 30, 2008  
With Comparative Figures for 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current Assets:		
Cash, Cash Equivalents and Investments	\$2,537,421	\$2,507,723
Cash with Treasurer of Virginia	48,846,982	42,656,665
Cash Advances	-0-	50,150
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$24,776,806 for 2008 and \$18,730,962 for 2007)	47,715,711	32,186,265
Cost Settlements Receivable	24,045,619	29,094,759
Other Accounts Receivable	290,071	438,557
Inventories	6,550,562	8,197,884
Prepaid Expenses	13,921,117	13,862,152
Total Current Assets	<u>143,907,483</u>	<u>128,994,155</u>
<b>Noncurrent Assets</b>		
Capital Outlay Funds	5,887,087	110,537,773
Energy Performance Contracts Funds Held by Trustee	1,166,454	7,311,227
Patient/Resident Funds Held by Trustee	2,736,025	2,605,655
Property, Plant, & Equipment (Net of Accumulated Depreciation)	189,564,913	104,608,083
Total Noncurrent Assets	<u>199,354,479</u>	<u>225,062,738</u>
Total Assets	<u><u>\$343,261,962</u></u>	<u><u>\$354,056,893</u></u>
<b>Liabilities</b>		
Current Liabilities:		
Accrued Payroll	\$28,301,910	\$27,519,960
Accounts Payable	5,031,875	14,600,755
Compensated Absences	86,662	216,657
Retainage Payable	3,238,560	2,379,591
Deferred Revenue	3,474,600	860,771
Other Liabilities	179,360	469,776
Total Current Liabilities	<u>40,312,967</u>	<u>46,047,510</u>
<b>Noncurrent Liabilities</b>		
Compensated Absences	36,580,539	37,155,777
Patient/Resident Funds Held by Trustee	2,736,025	2,605,655
Installment Purchase Obligations	24,329,772	25,061,278
Other Liabilities	-0-	-0-
Total Noncurrent Liabilities	<u>63,646,336</u>	<u>64,822,710</u>
Total Liabilities	<u>103,959,303</u>	<u>110,870,220</u>
<b>Net Assets</b>		
Invested in Capital Assets	189,564,913	104,608,083
Retained Earnings	327,030	294,267
Unrestricted	69,336,276	56,920,781
Restricted	(19,925,560)	81,363,542
Total Net Assets	<u><u>\$239,302,659</u></u>	<u><u>\$243,186,673</u></u>

See accompanying notes to financial statements.

**Virginia Department of Mental Health, Mental Retardation  
and Substance Abuse Services  
Statement of Revenues, Expenses and Changes in Net Assets  
For Fiscal Year Ended June 30, 2008  
With Comparative Figures for 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>		
Net Patient Service Revenue	\$322,082,629	\$303,519,349
Other Operating Revenue	1,310,673	1,535,370
Total Operating Revenue	<u>323,393,302</u>	<u>305,054,719</u>
<b>Expenses</b>		
State Health Services	350,793,769	346,007,116
Administration and Support Services	208,945,850	201,642,052
Pharmacy	45,167,834	33,007,915
Secure Confinement	19,459,759	17,369,651
Depreciation Expense	8,744,031	9,673,824
Instruction	7,979,352	7,963,287
Regulation of Public Facilities	1,852,920	1,766,655
(Gain) Loss on Disposal of Equipment	(670,057)	786,595
Inspection Activities	528,168	541,347
Total Operating Expenses	<u>642,801,626</u>	<u>618,758,442</u>
Operating Income (Loss)	<u>(\$319,408,324)</u>	<u>(\$313,703,723)</u>
<b>Nonoperating Income (Loss)</b>		
Appropriations from the Commonwealth	\$548,578,138	\$509,383,823
Federal Grant Revenues	70,006,764	69,029,690
Restricted Donations	235,355	934,774
Surplus Property Sales	33,060	-0-
Insurance Recovery Proceeds	1,655	-0-
Interest Income	9,159	11,191
Financial Assistance for Health Services	(290,831,873)	(277,971,632)
Capital Outlay Expenses	(68,812,421)	(27,862,540)
Other Nonoperating Expenses	(5,472,305)	-0-
Total Nonoperating Income (Loss)	<u>253,747,532</u>	<u>273,525,306</u>
Income (Loss) Before Contributions and Transfers	<u>(65,660,792)</u>	<u>(40,178,417)</u>
Capital Appropriations from the Commonwealth	54,466,122	112,284,083
Capital Revenue Bond Proceeds	30,800,979	35,035,037
Reversions to the Commonwealth	(3,994,595)	(199,987)
Net Operating Transfers	<u>(112,526,532)</u>	<u>(342,064)</u>
Change in Net Assets	(96,914,818)	106,598,652
Net Assets, Beginning of Year (Note 18 )	<u>336,217,477</u>	<u>136,588,021</u>
Net Assets, End of year	<u><u>\$239,302,659</u></u>	<u><u>\$243,186,673</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, 2008**

<b>Cash Flows from Operating Activities:</b>	
Receipts from Patient Services	\$311,602,323
Other Operating Receipts	1,182,885
Payments to Employees	(485,591,155)
Payments to Suppliers	<u>(32,112,079)</u>
<b>Net Cash Used by Operating Activities</b>	<b><u>(204,918,026)</u></b>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Operating Subsidies-General Fund Appropriations	548,578,138
Federal Grant Subsidies	70,686,223
Payments to Community Programs	(290,911,906)
Net Transfers	(2,078,702)
Restricted Donations	452,591
Restricted Expenditures	(115,477,198)
Endowment Expenditures	(5,329)
Nonoperating Revenues or (Expenditures)	(34,715)
Interest Income from Endowment Funds	<u>9,159</u>
<b>Net Cash Flows from Noncapital Financing Activities</b>	<b><u>211,218,261</u></b>
<b>Cash Flows from Capital and Related Financing:</b>	
Revenue Bond Proceeds	30,800,979
Capital Outlay Expenditures	(77,586,346)
Capital Outlay Appropriations	54,466,122
Net Transfers	(112,331,441)
Energy Performance Contract Proceeds and Earnings	59,038
Energy Performance Contract Expenditures	<u>(6,203,811)</u>
<b>Net Cash Flows Used By Capital and Related Financing</b>	<b><u>110,795,459</u></b>
Net increase (Decrease) in Cash and Cash Equivalents	(104,495,224)
Balance – Beginning of Year	<u>165,669,193</u>
<b>Balance – End of Year</b>	<b><u>\$61,173,969</u></b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operations:</b>	
Operating Loss	(\$319,408,324)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used by Operations:</b>	
Depreciation Expense	8,744,031
(Gain) Loss on Disposal of Property	670,057
<b>Net Changes in Assets and Liabilities:</b>	
Accounts Receivable	15,529,446
Other Accounts Receivable	(148,486)
Third Party Settlements Receivable	(5,049,140)
Inventories	(1,647,322)
Prepaid Assets	58,965
Accrued Payroll	781,950
Accounts Payable	(9,568,880)
Compensated Absences – Current	(129,995)
Retainage Payable	858,969
Deferred Revenue	2,613,829
Other Current Liabilities	(290,416)
Compensated Absences – Long Term	(575,238)
Funds Held in Custody for Others	130,370
Installment Purchase Obligations	(731,506)
Adjustment to Beginning Fund Balance (Note 18 )	<u>103,243,664</u>
<b>Net Cash Used by Operating Activities</b>	<b><u>(204,918,026)</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 (DMHMRSAS) for the fiscal year ended June 30, 2008. DMHMRSAS is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The financial statements presented include the sixteen state operated facilities and funding for forty community services boards. The state facilities are listed below as follows:

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

#### B. Basis of Accounting

DMHMRSAS has adopted the economic resources measurement focus and full accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Government Accounting Standards Board (GASB) for providers of healthcare services. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place.

Pursuant to GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting, DMHMRSAS has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The financial statements have been prepared in accordance with GASB Statement 34, Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.

#### C. 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 disclosure 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 amounts could differ from those estimates.

#### D. Net Patient Service Revenue

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

**E. Indigent Care and Uncollectible Accounts**

DMHMRSAS accepts all patients regardless of their ability to pay. A patient is classified as indigent by reference to established Commonwealth policies. The criteria for identifying indigent patients are based on asset and income guidelines that are updated annually in accordance with the federal poverty income guidelines as provided by the federal Office of Management and Budget. Net Patient Service Revenue includes the gross charges for indigent care less allowances for uncollectible amounts.

**F. 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 Anthem. 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.

**G. Investments**

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

**H. 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.

**I. 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, 2008. The amount reflects all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave policies.

**2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures required for Categories 1 and 2 deposits and investments, but maintains disclosures for category 3. The following risk disclosures are required by GASB Statement 40:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. DMHMRSAS has no Category 3 deposits or investments for 2008. At the end of the year, the carrying amount of Cash Not with the Treasurer of Virginia was \$1,794,473 and the bank balance was \$1,750,396. The bank balances exceeding those covered by Federal Deposit Insurance are protected under the provisions of the Virginia Security for Public Deposits Act.

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of DMHMRSAS's investments. The Mutual and Money Market Funds and Local Government Investment Pool represent 4 and 96 percent, respectively, of total investments.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. DMHMRSAS does not have an interest rate risk policy.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. DMHMRSAS has no foreign investments or deposits for 2008.

The following information is provided with respect to the risks associated with the DMHMRSAS' cash, cash equivalents, and investments at June 30, 2008.

#### Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of DMHMRSAS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by DMHMRSAS are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2- 4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for DMHMRSAS' deposits. Cash and cash equivalents represent cash with the Treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Additional disclosures required for cash equivalents under GASB Statement 40 are presented with the investments in the following tables.

#### Investments

Authorized investments are set forth in the Investment of Public Funds Act of the Code of Virginia, Sections 2.2-4500 through 2.2-4516. Authorized investments include: U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds. Investments fall into two groups: short- and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Credit and Concentration of Credit Risks

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Concentration of Risk Per-cent</u>
Cash Equivalents:			
U.S. government securities:			
Short-term investment fund	\$15,500	AAA	
Other	<u>44,719</u>		
Total Cash Equivalents	<u>60, 219</u>		
Investments:			
Mutual and money market funds	119,631		4%
Local government investment pool	<u>2,795,645</u>	AAA	96%
Total investments	<u>2,915,276</u>		
<b>Total Cash Equivalents and Investments</b>	<b><u><u>\$2,975,495</u></u></b>		

Interest Rate Risk –Maturities

	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Total</u>
Investments:			
Mutual and money market funds	\$ 119,631		\$ 119,631
Local government investment pool		<u>2,795,645</u>	<u>2,795,645</u>
<b>Total Investments</b>	<b><u>\$119,631</u></b>	<b><u>\$2,795,645</u></b>	<b><u>\$2,915,276</u></b>

Securities Lending Transactions

Investments and cash equivalents held by the Treasury of Virginia represent DMHMRSAS' allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

**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 \$5,000 at the date of acquisition (for State Hospitals and Training Centers).

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:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Land	\$14,778,389			\$14,778,389
Infrastructure	9,384,525	2,799,040	66,909	12,116,655
Equipment	41,615,207	3,862,171	1,219,439	44,257,940
Buildings	236,935,141	96,582,453	3,158,351	330,359,245
Construction in Progress	27,669,513	-10,212,860		17,456,653
Accumulated Depr.	<u>(225,774,692)</u>	<u>-8,744,031</u>	<u>-5,114,756</u>	<u>-229,403,969</u>
Total	<u>\$104,608,083</u>	<u>84,286,773</u>	<u>-670,057</u>	<u>\$189,564,913</u>

**5. RETAINAGE PAYABLE**

At June 30, 2008, \$3,238,560 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. 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, 2008, the Department has the following total future minimum rental payments for operating leases. The Department had no capital leases outstanding as of June 30, 2008.

<u>Year</u>	<u>Operating Leases</u>
2009	\$192,621
2010	141,772
2011	61,594
2012	37,555
2013	5,069
Later Years	
Total Minimum Lease Payments	438,611
Less: Executory Costs	<u>80,285</u>
Net Minimum Rental Payments	<u>\$358,326</u>
Current Portion	\$158,692
Long-term Portion	<u>199,634</u>
Total	<u>\$358,326</u>

**7. 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, 2008 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, 2008 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, 2008 will not be material.

**8. 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 2008 has been adjusted as follows:

<b>FY 2008, Original Appropriation, as of July 1, 2007</b>		<b>535,733,680</b>
Transfer to Dept of Rehab Services for recovering alcoholics		-999,400
Transfer to Dept of Rehab Services for OBRA services		-677,586
General fund regrades		40,369,913
5% general fund budget reduction		-16,862,247
Restoration of unallotted funds		3,135,000
General fund carry forward balance		9,482,228
Medicaid match from unallotted general fund carryforward		-6,007,228
Medicaid match		-14,000,000
Reductions per Appropriation Act		-1,711,692
Return of unspent funds from Dept of Rehab Services		100,000
Basic education- locality share		15,470
<b>Final (Adjusted) Appropriation, June 30, 2008</b>		<b>\$548,578,138</b>

**9. 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 \$584,598,189 for fiscal year 2008, \$253,141,875 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 2008 and FY 2007, respectively. It is useful to note that the majority of DMHMRSAS revenue consists of Medicaid reimbursements.

**Net Patient Service Revenue (FEES)  
FY 2008 and FY 2007**

Description	FY 2008	FY 2007
Gross Patient/Resident Charges	\$584,598,189	\$542,230,830
Less: Charity Allowance	(253,141,875)	(241,569,067)
Plus: Third Party Cost Settlements Receivable	24,045,619	29,094,759
Less: Contractual Adjustments	(33,419,304)	(26,237,173)
<b>Net Patient Service Revenue</b>	<b>\$322,082,629</b>	<b>\$303,519,349</b>

**10. RISK MANAGEMENT AND SELF-INSURANCE**

DMHMRSAS is a participant in the Commonwealth of Virginia's self-insurance program administered by the Department of Treasury, Division of Risk Management (DRM) and the Department of Human Resource Management (DHRM). The two types of plans offered include a health care plan for state employees administered by DHRM and a Risk Management Plan and Workers Compensation Plan offered by DRM and DHRM, respectively. Risk management insurance includes property, boiler and machinery, crime, employee dishonesty bond, general (tort) liability, professional liability, and automobile liability. These self-insurance plans are accounted for by the Commonwealth of Virginia in an Internal Service Fund. Detailed information relating to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report for FY 2008.

In the opinion of management, such coverage is adequate to provide for the ultimate liability, if any, which might result from the settlement of claims currently asserted against DMHMRSAS, as well as the potential liability for incidents of which DMHMRSAS has knowledge, but for which claims have not yet been asserted against DMHMRSAS. Accordingly, no provision is included in the financial statements for such potential liabilities. Sufficient information has not been developed by DMHMRSAS to provide a reasonable basis for estimation of the potential liability for incurred incidents, which have not been reported to DMHMRSAS; however, in the opinion of management, any potential liability for unreported incidents is not expected to have a material effect on the financial position of DMHMRSAS.

DMHMRSAS is self-insured for the first \$100,000 of each risk management loss, subject to any limitations indicated in the Code of Virginia. The Commonwealth of Virginia has not had any insurance settlements exceed the coverage during the past three years.

**11. RETIREMENT PLAN**

Employees of DMHMRSAS are employees of the Commonwealth. Substantially all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not DMHMRSAS, has overall responsibility for contributions to this plan. Total pension costs under the plan were \$35,044,527 for the year ended June 30, 2008.

**12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The Commonwealth participates in the VRS-administered statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

**13. DEFERRED COMPENSATION PLANS**

DMHMRSAS through the Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Commonwealth's Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets are not included in the financial statements. In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan who have been employed at least one year. During the current fiscal year, the maximum match was \$20 per pay period or \$40 per month. The fair value of assets in the cash match savings plan at June 30, 2008, is also excluded from the financial statements. Further information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

**14. ENDOWMENTS**

Donor restricted endowments reside within DMHMRSAS facilities. The net appreciation available for expenditure is \$254,883, and of this amount, \$258,713 is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. Facility management and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies may vary with each institution.

**15. PRIVATE-PUBLIC EDUCATIONAL FACILITIES AND INFRASTRUCTURE (PPEA)**

PPEA resulted from legislation that permitted an alternative tool that allows public entities to more efficiently develop infrastructure and achieve better value for the taxpayer. The PPEA provides for solicited and unsolicited proposals to develop or operate a qualifying project. Using the PPEA process, DMHMRSAS entered into comprehensive agreements with Gilbane Development Companies on December 20, 2005 for the building of an initial 100 bed facility (phase one) to treat sexually violent predators and to replace the geriatric wing of Eastern State Hospital with a new 150 bed geriatric facility (phase one). These facilities are known as Virginia Center for Behavioral Rehabilitation (VCBR) and Hancock Geriatric Treatment Center (HGTC), respectively. VCBR, phase one, was completed in February 2008. HGTC, phase one, was completed in April 2008. Phase two of VCBR included an additional 200 beds and was completed in August 2008. Phase two of HGTC will include an additional 150 beds and is scheduled for completion in July 2010 with a total project cost of \$59.7 million.

**16. ENERGY PERFORMANCE CONTRACTS**

The Department has entered into agreements to fund energy savings projects at various facilities. Installment purchase obligations are established for the project costs. Proceeds from these loans are held in escrow and are released to contractors as construction is completed. The Department has annual debt service payments on these loans and funding is obtained from energy savings realized as a result of the projects. As of June 30, 2008, the Department had installment purchase obligations outstanding in the amount of \$24,329,772 and \$1,166,454 in Cash held by the trustee.

**17. EXPENSE PROGRAM DESCRIPTIONS**

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

<b>Code</b>	<b>Title</b>	<b>Use</b>
<b>197</b>	<b>Instruction</b>	Efforts to provide academic elementary and secondary education. This includes basic skills and knowledge instruction as well as occupational-vocational instruction.
<b>357</b>	<b>Secure Confinement</b>	Efforts to hold patients in secure confinement until such time as they can be returned to the community. These include the forensic unit at Central State Hospital and the Virginia Center for Behavioral Rehabilitation.
<b>421</b>	<b>Pharmacy</b>	Efforts to provide pharmacy services in the community and through state-operated facilities.
<b>430</b>	<b>State Health Services</b>	Efforts to provide direct health care services to individuals and families through state-operated facilities.

<b>Code</b>	<b>Title</b>	<b>Use</b>
<b>445</b>	<b>Financial Assistance for Health Services</b>	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.
<b>498</b>	<b>Admin &amp; Support</b>	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.
<b>561</b>	<b>Regulation of Public Facilities</b>	Efforts to inspect, certify, and regulate public facilities and services, both publicly and privately operated.

**18. PRIOR PERIOD ADJUSTMENT**

The financial statements reflect a prior period adjustment for property, plant and equipment. The adjustment totaled \$93,030,804 whereby the amount reported for assets was increased. This adjustment was reflected as an adjustment to beginning net assets. The adjustment occurred as a result of a review of the construction in progress account during FY 2008 relating to FY 2007.

**Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services  
Schedule of Expenditures of Federal Awards  
For Fiscal Year Ended June 30, 2008**

Federal Sponsor/Program	CFDA#	Balance 7/1/07	Receipts	Disb.	Balance 6/30/08
<b><u>MONETARY ASSISTANCE</u></b>					
<b><u>U.S. DEPT. OF HEALTH &amp; HUMAN SERVICES:</u></b>					
Direct Payments:					
Project Virginia Rebound-SERG	93.003	-	\$406,314	\$406,314	-
PATH Grant	93.150	-	1,197,629	1,156,625	41,004
SA and MH Regional Projects	93.243	-	1,812,811	1,715,902	96,909
CMS Research	93.779	-	46,583	45,409	1,174
Community MH Block Grant	93.958	-	11,022,524	10,650,620	371,904
SAPT Block Grant	93.959	-	44,698,650	42,962,408	1,736,242
<b><u>U.S. DEPT. OF EDUCATION:</u></b>					
Direct Payments:					
Grants for Infants and Families with Disabilities	84.181	-	11,501,712	11,135,025	366,687
<b><u>PASS THROUGH GRANTS:</u></b>					
VA Dept. of Health: Emergency Preparedness Grants	93.889	-	94,970	94,970	-
VA Dept. of Social Services: Child Care Block Grant	93.575	-	64,051	64,051	-
VA Dept. of Criminal Justice Services: JABIG	16.523	1,570	83,813	85,383	-
VA Dept. of Criminal Justice Services: Juvenile Competency	16.549	-	49,623	49,623	-
VA Dept. of Criminal Justice Services: MH Transformation	16.745	-	50,000	43,627	6,373
VA Dept. of Motor Vehicles: Improving Outcomes for DUI	20.607	-	13,833	13,833	-
VA Dept of Med. Asst. Svcs: Workforce Demonstration	93.779	-	255,718	255,718	-
VA Dept of Med. Asst. Svcs: Medical Assistance Program	93.778	-	1,216,735	1,216,735	-
Total Monetary Assistance Central Office		1,570	72,514,966	69,896,243	2,620,293
<b><u>FACILITY FEDERAL ASSISTANCE</u></b>					
National School Lunch	10.555	15,007	59,730	36,540	38,197
Adult Education State Grant Program	84.002	1,923	-1,263	10,799	-10,139
Education of Handicapped Children	84.027	16,901	11,502	11,502	16,901
Internet Grant	N/A	13,764	0	0	13,764
National School Breakfast	10.553	26,507	12,019	14,573	23,953
FEMA Grants	97.036	192,545	0	8,240	184,305
State Homeland Security Program	97.067	(169,917)	0	0	(169,917)
Total Facility Monetary Assistance		96,730	81,988	81,654	97,064
Total Monetary Assistance		98,300	72,596,954	69,977,897	2,717,357
<b><u>NONMONETARY ASSISTANCE</u></b>					
<b><u>U.S. DEPT OF AGRICULTURE</u></b>					
Pass Through Assistance: Federal Surplus Food Program	10.550	5,322	20,926	13,339	12,909
Total Federal Assistance		\$103,622	\$72,617,880	\$69,991,236	\$2,730,266

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 Feeble-minded (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 Feeble-minded 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.

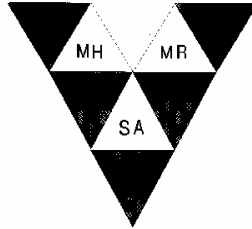
- 1971 The name of the Petersburg Colony is changed to the Petersburg Training School and Hospital.
- 1973 Northern Virginia Training Center and Southwestern Virginia Training Center are established in Fairfax and Hillsville, respectively. The Department of Mental Hygiene and Hospitals changes its name 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 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 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 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 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 required to reduce 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 was 3,263. Due to recessionary times experienced by the Commonwealth as well as the nation, the Department was forced to reduce its workforce. Total full time staff employed by the Department at June 30 was 8,967, down from 9,090 the previous year. State funding to community programs was reduced by 10%. 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. Legislation creating the Virginia Center for Behavioral Rehabilitation (VCBR) is enacted and Dinwiddie County is selected as the initial site. VCBR is established to treat sexually violent predators.
- 2004 The patient/resident average census continued to decline and amounted to 3,157 at the close of the year. Regional reinvestment projects, initially 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 are transferred from the Department to the newly formed Virginia Information Technology Agency (VITA).
- 2005 Patient/resident census declined to 3,069. The Department submitted its 2006-2008 biennium budget in the summer and fall of 2005. Governor Warner included \$170 million in new spending attributable to community-based services and \$290 million in capital money to replace Eastern State Hospital, Western State Hospital, Central Virginia Training Center and Southeastern Virginia Training Center. The Governor's budget proposal is to be discussed and debated during the 2006 legislative session. The Department employed 8,770 full-time employees including 4,520 at its mental health facilities, 3,996 at its training centers for the mentally retarded and 254 in its Central Office.
- 2006 Patient/resident census continued to decline. The average census was 3,033. New funding initiatives in the community along with approval to replace four facilities (Eastern State, Western State, Southeastern Virginia Training Center and Central Virginia Training Center) were approved by the General Assembly. The new initiatives will become effective during the 2006-2008 bienniums.

2007 Patient/resident census continued to decline. The average census was 2,995. Increased funding to the community took place as a result of system transformation efforts related to the development of the 2006-2008 biennium budgets. Regional partnerships were developed to enhance service provision in the community.

On April 16, 2007, 27 students and 5 faculty members were massacred at Virginia Tech. The gunman, a Virginia Tech student, then took his own life leaving the toll of the tragedy at 33 lost lives. In reaction to this incident, Governor Kaine appointed a commission to study the issue and to make recommendations for improvements to the mental health system in Virginia. The recommendations put forth by the commission along with vigorous proposed legislation by the Virginia General Assembly will set the stage for changes in Virginia's mental health system. Proposed changes in commitment laws and increased funding to DMHMRSAS are the likely outcomes of the 2008-2010 biennium budgets.

2008 Patient/resident census continued to decline. The average census was 2,917. The Commonwealth as well as the Nation began experiencing the effects of a serious economic downturn. Various budget reduction plans and expenditure reductions were enacted during the last six months of the fiscal year. As DMHMRSAS moved into the 2009 legislative session, Southeastern Virginia Training Center and Commonwealth Center for Children and Adolescents were proposed to be closed effective June 30, 2009. The General Assembly was in the process of debating these proposals as of the publication of this document.



### **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., CPA, CGFM, Director, Office of Budget and Financial Reporting. 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: Nauri D. Ahmed, CPA, CGFM; Danielle Y. Claiborne; and Gerald M. Spivey, CGFM, CFE (Financial Management Analysts within the Office of Budget and Financial Reporting). Assistance was also provided by: Jimmy Hodges, CGFM; Cynthia Hatch; and Ben Saunders (Budget Managers within the Office of Budget and Financial Reporting). 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' operations of the Department. These audits have been favorable. The Department has been committed to cooperating, 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  
Richmond, VA 23219  
Telephone: (804) 225-3350