

**ALLEGHANY HIGHLANDS
COMMUNITY SERVICES BOARD**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alleghany Highlands Community
Services Board
Covington, Virginia

I have audited the accompanying general purpose financial statements of Alleghany Highlands Community Services Board as of June 30, 2008 and 2007, and for the years then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of Alleghany Highlands Community Services Board. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted the audits 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 *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Virginia Auditor of Public Accounts. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Alleghany Highlands Community Services Board as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

My audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of Alleghany Highlands Community Services Board. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Lisa H. ArmentROUT, CPA

Covington, Virginia
November 17, 2008

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

Our discussion and analysis of the Alleghany Highlands Community Services Board's financial performance provides an overview of the CSB's financial activities for the fiscal year ended June 30, 2008. Please read this information in conjunction with the CSB's financial statements.

FINANCIAL HIGHLIGHTS

The Alleghany Highlands Community Services Board's financial statements are reported on the full accrual basis as required by GASB Statement 34. On this basis, the CSB reported total revenues of \$6,750,617 and expenditures of \$6,396,465, resulting in an increase in net assets of \$354,152 for the year ended June 30, 2008.

The CSB's financial statements include the Alleghany Highlands Community Services Board Foundation, which is considered to be a component unit of the CSB.

The FY 2008 Performance Contract issued by the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services to the CSB requires the reporting of financial information on a cash or budgetary basis and requires certain unspent funds from the prior year to be reported as income in the current year. On this basis as reported to the State, the CSB had revenues in excess of expenditures by \$381,897. Reconciliation between the CSB's financial statements and the final state performance contract is included in the supplementary information section of this financial report.

The CSB's net assets totaled \$3,987,342, of which \$1,057,211 is available to spend at the discretion of the CSB. The total debt of the CSB is \$52,218.

BASIC FINANCIAL STATEMENTS

The basic financial statements report information about the CSB using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the CSB's finances is "Is the CSB better or worse off as a result of the year's activities?" The CSB presents three basic financial statements to help answer this question. These are (1) a Statement of Net Assets; (2) a Statement of Revenues, Expenses and Changes in Net Assets; and (3) a Statement of Cash Flows.

These statements report the CSB's net assets and changes in them. One can think of the CSB's net assets- the difference between assets and liabilities- as one way to measure the CSB's financial health, or financial position. 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. Over time, increases or decreases in the CSB's net assets are one indicator of whether its financial health is improving or deteriorating. 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 CSB. The Statement of Cash Flows identifies the changes in the cash balances of the CSB and reconciles the change in net assets to the cash flows provided and used by the CSB.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

FINANCIAL ANALYSIS

FINANCIAL POSITION-A summary of the CSB's Statement of Net Assets for the years ended June 30, 2008 and 2007 is presented below:

Condensed Statement of Net Assets

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|--------------------|
| Current Assets | \$1,588,618 | \$1,304,053 |
| Assets Limited as to Use | 18,289 | 25,555 |
| Property and Equipment | <u>2,930,131</u> | <u>2,870,005</u> |
| Total Assets | <u>\$4,537,038</u> | <u>\$4,199,613</u> |
| Current Liabilities | \$ 433,584 | \$ 423,580 |
| Long-term Liabilities | <u>116,112</u> | <u>142,843</u> |
| Total Liabilities | <u>\$ 549,696</u> | <u>\$ 566,423</u> |
| Net Assets: | | |
| Invested in Capital Assets | \$2,930,131 | \$2,870,005 |
| Unrestricted | <u>1,057,211</u> | <u>763,185</u> |
| Total Net Assets | <u>\$3,987,342</u> | <u>\$3,633,190</u> |
| Total Liabilities and Net Assets | <u>\$4,537,038</u> | <u>\$4,199,613</u> |
| Quick Ratio (Current Assets/Current Liabilities) | 3.66:1 | 3.08:1 |

The quick ratio increased from 2007 to 2008 due to the restoration of cash funds after the purchase of property and equipment with current assets (cash) in 2007.

CHANGE IN NET ASSETS-A summary of the Alleghany Highlands Community Services Board's statements of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

| | <u>2008</u> | <u>2007</u> |
|-------------------------|-------------------|-------------------|
| Operating Income | \$ 4,807,291 | \$ 4,151,037 |
| Operating Expenses | <u>6,396,465</u> | <u>5,762,100</u> |
| Operating Income (Loss) | \$(1,589,174) | \$(1,611,063) |
| Non-Operating Income | <u>1,943,326</u> | <u>1,772,458</u> |
| Change in Net Assets | <u>\$ 354,152</u> | <u>\$ 161,395</u> |

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

Operating income is defined as the amount of revenue received from providing patient services. Operating income increased approximately 15.81% in 2008 from 2007 and 15.59% in 2007 as compared to 2006.

Operating expenses are the direct expenses incurred in the operation of the CSB, including salaries and benefits, rent and facility expenses, contractual expenses, consumer service expenses, and depreciation. (See the Statement of Revenues, Expenses and Changes in Net Assets for detail and amounts of these operating expenses.) From 2006 to 2007, operating expenses increased by approximately 19.05% and from 2007 to 2008, the increase was approximately 11.01%. The main component of both increases was increased salaries and benefits.

Non-operating income includes appropriations and grants from federal, state, and local governments, contributions and grants from other foundations and local agencies, and interest income. Non-operating income increased by approximately 6.91% from 2006 to 2007 and 9.64% from 2007 to 2008. The following table details the percentage of the non-operating income by source.

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-----------------------------------|-------------|-------------|-------------|
| Commonwealth of Virginia | 72.85 | 64.64 | 70.60 |
| Federal grants | 16.85 | 22.86 | 19.49 |
| Local governments | 4.26 | 4.22 | 4.23 |
| Other, contributions, grants | 4.83 | 4.85 | 1.84 |
| Gain (loss) on disposal of assets | (.18) | .02 | 1.26 |
| Interest income | <u>1.39</u> | <u>3.41</u> | <u>2.58</u> |
| Total non-operating income | 100.00 | 100.00 | 100.00 |

Net assets increased \$354,152 in 2008 as compared to increases of \$161,395 in 2007 and \$408,853 in 2006. The smaller increase in 2007 was due mainly to a smaller percentage increase in operating revenue and state funds compared to the increase in operating expenses.

CASH FLOWS-A summary of the Alleghany Highlands Community Services Board's statements of cash flows for the years ended June 30, 2008 and 2007 is presented below.

Condensed Statements of Cash Flows

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | \$(1,402,595) | \$(1,595,014) |
| Cash flows from non-capital activities | 1,901,672 | 1,774,468 |
| Cash flows from capital activities | (312,303) | (712,071) |
| Cash flows from investing activities | <u>27,062</u> | <u>951,630</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 213,836 | \$ 419,013 |
| Cash, Beginning of Year | <u>740,923</u> | <u>321,910</u> |
| Cash, End of Year | <u>\$ 954,759</u> | <u>\$ 740,923</u> |

Cash flows from operating activities represent the change in net assets adjusted for any non-cash transactions and any changes in asset and liability accounts. Examples of non-cash transactions are depreciation and the provision for uncollectible accounts. Cash flows from non-capital activities consist of the elements of non-operating income. Cash flows from capital activities include fixed asset purchases by the CSB. Cash flows from investing activities are made up of interest income and any transactions involving investments. (See the Statements of Cash Flows for detail and amounts of cash flow transactions.)

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2008

During 2007, there was a relatively large increase of \$419,013 in cash and cash equivalents. This increase was due mainly to the redemption of a certificate of deposit in the amount of \$929,533.

BUDGETARY HIGHLIGHTS

The combining statements included in the supplementary information section of this financial report reflect the variance in actual and budgeted expenditures based on the modified accrual basis of accounting used internally by the CSB.

The total net favorable variance between budgeted and actual revenue for all programs was \$79,060. This variance was largely due to increased fee revenue over and above budgeted amounts.

Budgeted amounts exceeded actual expenditures by \$168,001. In general, expenditures for salaries and benefits and capital improvements were less than the amounts budgeted in these categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2008, the Alleghany Highlands Community Services Board has net fixed assets of \$2,930,131. The original cost of these assets is \$4,121,184 and the accumulated depreciation on these assets is \$1,191,053. (See Note 3 to the financial statements for further detail.) Of the total fixed assets, land, buildings, and building improvements account for 71.81%, computers, office equipment, and furniture and fixtures account for 14.70%, and vehicles account for the remaining 13.49%.

The CSB purchased \$280,201 in fixed assets during the year ended June 30, 2008. Of this total, expenditures in the amount of \$169,718 were used to purchase building renovations and vehicles. Building renovations were incurred for a clubhouse used in the Mental Health program and a building used for administrative offices.

DEBT ADMINISTRATION

The Alleghany Highlands Community Services Board has available an unsecured line of credit agreement in the amount of \$250,000 and a vehicle line of credit commitment in the amount of \$100,000 with a local financial institution. The lines of credit, which are subject to annual review and renewal, were not used during 2008.

The CSB, through its component unit, Alleghany Highlands Community Services Board Foundation, has a mortgage loan through a local individual. The collateral for the loan is the administrative office building for Mental Retardation in Clifton Forge. The total outstanding loan balance is \$5,736 at June 30, 2008. The net book value of the collateral securing the loan is \$72,590.

In September, 2006, the CSB Foundation obtained four vehicle loans with a local financial institution. The balance of these loans totaled \$46,482 and the net book value of the vehicles was \$58,832 at June 30, 2008.

**ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
MANAGEMENT DISCUSSION AND ANALYSIS**

Year Ended June 30, 2008

ECONOMIC FACTORS

State and federal revenues account for approximately 26% of the revenue of the CSB. Due to uncertainties surrounding amounts appropriated by the state and federal governments, the CSB continues to strive to increase the fee revenue percentage in order to ensure financial support for programs. The CSB is also dependent on other factors, including Medicaid regulations and third-party insurance reimbursement policies. Approximately 85-90% of fee revenue is derived from Medicaid billings. Changes in Medicaid law and regulation could have a negative impact on CSB revenues. The CSB, in addition to increasing fee revenue, continues to review expenditures for cost saving opportunities and more efficient operating conditions.

CONTACTING THE CSB'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, consumers, creditors and funding sources with a general overview of the CSB's finances and to demonstrate the CSB's accountability for the money it receives. Questions concerning this report or requests for additional information should be made directly to Patty Flanagan, Fiscal Officer, 205 E. Hawthorne Street, Covington, Virginia 24426 (Telephone (540) 965-2135, Ext. 102).

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

| ASSETS | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 954,759 | \$ 740,923 |
| Consumer accounts receivable, net of estimated uncollectibles of \$94,710 in 2008 and \$95,116 in 2007 | 606,639 | 560,722 |
| Grants receivable | 942 | 1,853 |
| Prepaid expenses | <u>26,278</u> | <u>555</u> |
| Total current assets | <u>\$ 1,588,618</u> | <u>\$ 1,304,053</u> |
| Assets limited as to use: | | |
| Consumer funds held by trustees | \$ 8,269 | \$ 17,935 |
| Internally designated | <u>10,020</u> | <u>7,620</u> |
| | <u>\$ 18,289</u> | <u>\$ 25,555</u> |
| Property and equipment | <u>\$ 2,930,131</u> | <u>\$ 2,870,005</u> |
| Total assets | <u>\$ 4,537,038</u> | <u>\$ 4,199,613</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Current maturities of long term debt | \$ 26,418 | \$ 25,870 |
| Accounts payable and accrued expenses | 114,823 | 75,937 |
| Current portion of accrued leave liability | 210,728 | 211,459 |
| Funds held in trust for consumers | 8,269 | 17,935 |
| Deferred revenue | <u>73,346</u> | <u>92,379</u> |
| Total current liabilities | <u>\$ 433,584</u> | <u>\$ 423,580</u> |
| Long-term liabilities: | | |
| Long-term debt, net of current maturities | \$ 25,800 | \$ 52,218 |
| Long-term portion of accrued leave liability | <u>90,312</u> | <u>90,625</u> |
| Total long-term liabilities | <u>\$ 116,112</u> | <u>\$ 142,843</u> |
| Total liabilities | <u>\$ 549,696</u> | <u>\$ 566,423</u> |
| Net assets: | | |
| Invested in capital assets | \$ 2,930,131 | \$ 2,870,005 |
| Unrestricted | <u>1,057,211</u> | <u>763,185</u> |
| Total net assets | <u>\$ 3,987,342</u> | <u>\$ 3,633,190</u> |
| Total liabilities and net assets | <u>\$ 4,537,038</u> | <u>\$ 4,199,613</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Operating revenue: | | |
| Net consumer service revenue | \$ 4,807,291 | \$ 4,151,037 |
| Expenses: | | |
| Salaries and benefits | \$ 5,054,284 | \$ 4,707,557 |
| Consumer services | 451,490 | 270,450 |
| Consultants and contractual expenses | 131,088 | 104,259 |
| Rent and facility expenses | 172,352 | 125,251 |
| Travel expenses | 116,532 | 102,606 |
| Office and supplies expense | 157,437 | 156,096 |
| Staff development and training | 50,335 | 71,296 |
| Insurance | 35,937 | 31,909 |
| Depreciation | 216,145 | 195,953 |
| Provision for (recovery of) bad debts | (407) | (11,205) |
| Interest expense | 4,232 | 4,999 |
| Miscellaneous expense | <u>7,040</u> | <u>2,929</u> |
| Total expenses | \$ 6,396,465 | \$ 5,762,100 |
| Operating income (loss) | \$ (1,589,174) | \$ (1,611,063) |
| Non-operating income: | | |
| Appropriations from the Commonwealth of Virginia: | | |
| State funds | \$ 1,415,715 | \$ 1,145,754 |
| Federal pass-through funds | 327,469 | 405,176 |
| Appropriations from local governments | 82,817 | 74,817 |
| Medicaid cost settlement | 42,240 | 43,681 |
| Virginia Department of Aging grant | - | 12,988 |
| Unrestricted contributions | 25,389 | 22,965 |
| Other | 26,164 | 6,256 |
| Gain (loss) on disposal of assets | (3,530) | 363 |
| Interest income | <u>27,062</u> | <u>60,458</u> |
| Total non-operating income | \$ 1,943,326 | \$ 1,772,458 |
| Change in net assets | \$ 354,152 | \$ 161,395 |
| Net assets, beginning of year | <u>3,633,190</u> | <u>3,471,795</u> |
| Net assets, end of year | <u>\$ 3,987,342</u> | <u>\$ 3,633,190</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 4,761,781 | \$ 4,045,676 |
| Payments to suppliers | (1,109,048) | (996,342) |
| Payments to and for employees | <u>(5,055,328)</u> | <u>(4,644,348)</u> |
| Net cash provided (used) by operating activities | <u><u>\$(1,402,595)</u></u> | <u><u>\$(1,595,014)</u></u> |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Government appropriations | \$ 1,806,968 | \$ 1,681,020 |
| Other | <u>94,704</u> | <u>93,448</u> |
| Net cash provided (used) by noncapital and related financing activities | <u><u>\$ 1,901,672</u></u> | <u><u>\$ 1,774,468</u></u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal paid on long-term debt | \$(25,870) | \$(21,275) |
| Interest paid on long-term debt | (4,232) | (4,999) |
| Assets designated for internal use | (2,400) | (2,400) |
| Proceeds from sale of property | 400 | 500 |
| Purchase of property and equipment | <u>(280,201)</u> | <u>(683,897)</u> |
| Net cash provided (used) by capital and related financing activities | <u><u>\$(312,303)</u></u> | <u><u>\$(712,071)</u></u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | \$ 27,062 | \$ 76,079 |
| Capitalized interest on investments | - | (53,982) |
| Proceeds from short-term investments | <u>-</u> | <u>929,533</u> |
| Net cash provided (used) by investing activities | <u><u>\$ 27,062</u></u> | <u><u>\$ 951,630</u></u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u><u>\$ 213,836</u></u> | <u><u>\$ 419,013</u></u> |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | <u>740,923</u> | <u>321,910</u> |
| End of year | <u><u>\$ 954,759</u></u> | <u><u>\$ 740,923</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$(1,589,174) | \$(1,611,063) |
| Interest expense considered capital financing activity | 4,232 | 4,999 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 216,145 | 195,953 |
| Provision for (recovery of) doubtful accounts | (407) | (11,205) |
| (Increase) decrease in: | | |
| Consumer accounts receivable | (45,510) | (105,361) |
| Prepaid expenses | (25,723) | 31,535 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 38,886 | (163,081) |
| Accrued leave liability | <u>(1,044)</u> | <u>63,209</u> |
| Net cash provided (used) by operating activities | <u><u>\$(1,402,595)</u></u> | <u><u>\$(1,595,014)</u></u> |
| NON-CASH CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Renovations financed through accounts payable | <u>\$ -</u> | <u>\$ 6,964</u> |
| Vehicles purchased with long-term debt | <u><u>\$ -</u></u> | <u><u>\$ 81,234</u></u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Alleghany Highlands Community Services Board (CSB) operates as an agency for the County of Alleghany and the City of Covington in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia, relating to the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services.

A summary of significant accounting policies follows:

Reporting entity

The Alleghany Highlands Community Services Board Foundation, a 501(c)(3) corporation that was established by the CSB for general purposes, including to acquire and renovate buildings and equipment for the use of the CSB, is a component unit of the CSB. For the years ended June 30, 2008 and 2007, the CSB will include the Foundation in the reporting entity as a blended component unit. While the Foundation is a legally separate organization, the organizations share the same governing board and the Foundation maintains and leases real estate and equipment to the CSB.

Basis of accounting

The CSB utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Budgets and budgetary accounting

The CSB annually prepares a budget based on the funding notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS), the administrating agency for the Commonwealth of Virginia. In addition to the allocation of state and pass-through federal funds, the notification details the matching amounts required from the localities served by the CSB. Amendments to the budget occur when funding adjustments are made by DMHMRSAS in response to data furnished in the CSB's quarterly reports of revenues and expenditures by program area. Combining statements of revenues and expenditures-budget and actual (modified accrual basis) are included in the supplementary information section of this report.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term highly liquid investments (including repurchase agreements) with an original maturity of three months or less.

Accounts receivable

Accounts receivable are reported at cost less allowance for doubtful accounts. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Assets limited as to use

Assets limited as to use include funds held for consumers and funds designated by the Board of Directors for future use. For the years ended June 30, 2008 and 2007, funds have been internally designated for capital improvements and equipment purchases.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

All purchased equipment and leasehold improvements are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Assets are capitalized and depreciated using the straight-line method based on estimated lives as follows:

| | <u>Years</u> |
|------------------------|--------------|
| Buildings | 30 |
| Vehicles | 5 |
| Computer equipment | 5 |
| Furniture and fixtures | 7-10 |
| Leasehold improvements | 7-30 |

Deferred revenue

Deferred revenue consists of federal grant and state special project monies received but not expended in the current fiscal year.

Compensated absences

CSB employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Earned vacation pay to a maximum of 432 hours for over 25 years of service and one-fourth of unused sick leave up to a maximum of \$2,500 for employees with more than five and less than ten years of service and \$5,000 for employees with more than ten years of service may be paid upon termination of employment. The CSB records vested vacation pay and vested sick leave as an expenditure in the year in which it is earned. The portion of accrued compensation that is estimated to be paid within a one-year period is recorded as a current liability.

Deferred compensation plans

The CSB offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans permit employees to defer a portion of their salary until future years. The deferred compensation plans are not available to employees until termination, retirement, death, or unforeseeable emergency. As a result of legislative changes, all amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property rights of the CSB subject only to the claims of the CSB's general creditors. Accordingly, the deferred compensation investments are no longer reported in the CSB's financial statements.

Leases

The CSB maintained operating lease agreements in connection with the various locations utilized by its programs. The operating leases do not give rise to property rights or lease obligations, and, therefore, the results of the lease agreements are not reflected in the financial statements. Details of the operating leases are set forth in Note 6.

Net consumer service revenue

Net consumer service revenue is reported at the estimated net realizable amounts from consumers, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The CSB is reimbursed at a fixed rate for clinic and state plan option services. Mental retardation services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the CSB and audits thereof by the Medicaid fiscal intermediary.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental revenues and grants

Special-purpose governmental revenues and grants, primarily federal block grants and state special-project funding, are recognized when earned or at the time expended for the special purpose. Revenues from general purpose grants, including state general funds and local government allocations, are recognized in the period to which the grant applies. Expenditures are recorded as the related liabilities are incurred.

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 CSB has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The CSB prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The reporting requirements of this Statement include Management's Discussion and Analysis, Government-wide financial statements, Fund financial statements, Notes to financial statements, and Required Supplementary Information. The Statement also requires governments to report infrastructure assets. The CSB's compliance with the Statement consists mainly of the inclusion of Management Discussion and Analysis in the report and classification of revenues as operating or non-operating.

Risk management

The CSB is exposed to various risks of loss related to theft, damage and destruction of property, employee injury, malpractice, and errors and omissions. During the fiscal years ended June 30, 2008 and 2007, the CSB participated in VARISK, a public entity risk pool, for public official liability and medical malpractice liability and in VACO (Virginia Association of Counties) Risk Management System for general liability, property coverage, automobile insurance and workers' compensation. In addition, the CSB carries commercial insurance to cover other risks of loss, including employee health and accident insurance. Settled claims have not exceeded this coverage in any of the past three years.

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 at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates. The more significant estimates are those used in computing the allowance for uncollectible accounts.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS

At June 30, 2008 and 2007, the carrying values of the CSB's deposits with banks were \$970,444 and \$763,255, and the bank balances were \$1,143,105 and \$895,614. The entire bank balance was covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The carrying values of the CSB's deposits are detailed below:

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 954,759 | \$ 740,923 |
| Assets limited as to use: | | |
| Consumer funds | \$ 8,269 | \$ 17,935 |
| Internally designated | <u>10,020</u> | <u>7,620</u> |
| | \$ 18,289 | \$ 25,555 |
| | \$ 973,048 | \$ 766,478 |
| Less petty cash and consumer cash funds | <u>2,604</u> | <u>3,223</u> |
| Carrying value of deposits with financial institutions | <u>\$ 970,444</u> | <u>\$ 763,255</u> |

State statutes authorize local governments and other public bodies to invest in obligations of the United States, its agencies and instrumentalities, time certificates of deposit, bankers' acceptances, repurchase agreements, demand notes, and commercial paper. Investments, including repurchase agreements, are categorized to indicate the level of risk assumed by the CSB. Category 1 includes investments that are insured and registered or for which the securities are held by the entity or the entity's agent in the entity's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or its agent in the entity's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty, or its trust department or agent, but not in the entity's name.

NOTE 3. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2008 and 2007 follows:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|--------------------|--------------------|
| Land | \$ 440,745 | \$ 440,745 |
| Buildings | 1,984,172 | 1,857,089 |
| Vehicles | 555,824 | 562,464 |
| Computers and other equipment | 392,030 | 378,610 |
| Furniture and fixtures | 213,940 | 213,711 |
| Leasehold improvements | <u>534,473</u> | <u>478,700</u> |
| | \$4,121,184 | \$3,931,319 |
| Less accumulated depreciation | <u>1,191,053</u> | <u>1,061,314</u> |
| | <u>\$2,930,131</u> | <u>\$2,870,005</u> |

During the fiscal years ended June 30, 2008 and 2007, the CSB donated, sold or otherwise disposed of obsolete, retired, or expired computer equipment, furniture, and leasehold improvements, as detailed below:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|-----------------|---------------|
| Original cost | \$ 41,060 | \$ 16,987 |
| Less accumulated depreciation | <u>37,130</u> | <u>16,850</u> |
| Book value of assets disposed | <u>\$ 3,930</u> | <u>\$ 137</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RETIREMENT PLAN

The Alleghany Highlands Community Services Board contributes to the Virginia Retirement System (VRS), an agent multi-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service for participating employees payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, VA, 23218-2500.

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be assumed by the Employer. In addition, the CSB is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended June 30, 2007 was 5.47% of annual covered payroll.

For 2008, the CSB's annual pension cost of \$175,889 for VRS was equal to the CSB's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost of living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of CSB assets was determined using the modified market asset valuation method. VRS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

Following is a schedule of pension cost, percentage of pension cost contributed, and the net pension obligation at the end of the year:

| <u>Year Ended</u> <u>June 30.</u> | <u>Annual Pension</u> <u>Cost</u> | <u>Percentage of Annual</u> <u>Pension Cost Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
|--------------------------------------|--------------------------------------|--|---|
| 2008 | \$ 175,889 | 100% | \$ 0 |
| 2007 | \$ 162,393 | 100% | \$ 0 |
| 2006 | \$ 113,764 | 100% | \$ 0 |

NOTE 5. LONG-TERM DEBT

Debt outstanding at June 30, 2008 and 2007 consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| 7.50% real estate note with a local individual secured by land and building with a carrying value of \$72,590 due in monthly installments of \$594 through April, 2009 | \$ 5,736 | \$ 12,163 |
| 6.20% notes with a local financial institution secured by vehicles with a total carrying value of \$58,832 due in monthly installments totaling \$1,915 through August, 2010 | <u>46,482</u> | <u>65,925</u> |
| | \$ 52,218 | \$ 78,088 |
| Less current maturities | <u>26,418</u> | <u>25,870</u> |
| | <u>\$ 25,800</u> | <u>\$ 52,218</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 5. LONG-TERM DEBT (continued)

Aggregate maturities required on long-term debt as of June 30, 2008 are due in future years as follows:

| <u>Years Ending June 30,</u> | <u>Amount</u> |
|------------------------------|------------------|
| 2009 | \$ 26,418 |
| 2010 | 22,000 |
| 2011 | <u>3,800</u> |
| | <u>\$ 52,218</u> |

NOTE 6. LEASE OBLIGATIONS

The CSB was obligated under certain property leases accounted for as operating leases. Lease expenditures under operating lease agreements for the years ended June 30, 2008 and 2007 totaled \$18,636 and \$19,196, respectively. All operating lease agreements terminated during the year ended June 30, 2008.

Included in the payments above is the fair market value of rental by the CSB of an old firehouse from the City of Clifton Forge. This arrangement, dated June 14, 1988, called for the CSB to perform major renovations to the building in exchange for annual rent credit. The lease was originally effective for a term of twenty years, with two five-year renewal options at fair market value of the rental. The rental value of the lease, which is charged to rental expense and credited to local contributions in kind, totaled \$12,996 and \$12,667 for the years ended June 30, 2008 and 2007, respectively. Due to the reversion of the City of Clifton Forge to town status as of July 1, 2001, the annual rent credit is considered a contribution from Alleghany County. This lease arrangement expired on June 30, 2008.

As indicated in Note 1, the CSB leases property and equipment from the CSB Foundation. During the years ended June 30, 2008 and 2007, the following amounts were paid from the CSB to the CSB Foundation:

| | <u>2008</u> | <u>2007</u> |
|-----------------|-------------------|------------------|
| Facility rental | \$ 119,699 | \$ 56,400 |
| Vehicle rental | <u>33,199</u> | <u>17,235</u> |
| | <u>\$ 152,898</u> | <u>\$ 73,635</u> |

NOTE 7. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the CSB expects such amounts, if any, to be immaterial. Medicaid billings comprise the main source of fee revenue for the CSB at approximately 85-90%. Current political and legislative uncertainties relating to Medicaid programs could have a major negative impact on future revenues of the CSB if funding and related programs are eliminated or substantially reduced.

Due to state and local budget uncertainties regarding levels of funding, the CSB conducts ongoing reviews of its budget in an effort to reduce expenses and increase revenue from other sources.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. COMMITMENTS AND CONTINGENCIES (continued)

At June 30, 2008, there were no matters of litigation involving the CSB that would materially affect the CSB's financial position should any court decision or pending matter not be favorable to the CSB.

During 2007, the CSB accepted an unsecured operating line of credit commitment with a local financial institution in the amount of \$250,000. The interest rate charged will be variable based on the Wall Street Journal Prime daily rate. The CSB also agreed to a guidance line of credit in the amount of \$100,000 to be used for the purchase of vehicles. A draw on the vehicle line of credit will be set up as an installment loan with a fixed rate of 7.50% and a term not exceeding 60 months. Both line of credit commitments are subject to annual review and renewal. The CSB did not have an outstanding balance under any line of credit at June 30, 2008 or 2007.

NOTE 8. APPROPRIATIONS FROM LOCAL GOVERNMENTS

Appropriations from local governments consisted of the following at June 30, 2008 and 2007:

| | <u>2008</u> | <u>2007</u> |
|---------------------|------------------|------------------|
| County of Alleghany | \$ 59,654 | \$ 54,654 |
| City of Covington | <u>23,163</u> | <u>20,163</u> |
| | <u>\$ 82,817</u> | <u>\$ 74,817</u> |

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES
 MENTAL HEALTH-BUDGET AND ACTUAL
 Year Ended June 30, 2008

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|---------------------|---------------------|--|
| Revenues: | | | |
| Fee revenue | \$ 2,305,719 | \$ 2,420,084 | \$ 114,365 |
| Commonwealth of Virginia funds | 991,673 | 953,033 | (38,640) |
| Federal funds | 48,951 | 49,577 | 626 |
| Local funds: | | | |
| County of Alleghany | 31,020 | 31,020 | - |
| City of Covington | 12,045 | 12,045 | - |
| Contributions | 11,913 | 12,073 | 160 |
| Other | <u>6,131</u> | <u>12,364</u> | <u>6,233</u> |
| Total revenues | <u>\$ 3,407,452</u> | <u>\$ 3,490,196</u> | <u>\$ 82,744</u> |
| Expenditures: | | | |
| Personnel | \$ 2,578,095 | \$ 2,611,711 | \$(33,616) |
| Consumer services | 289,011 | 349,466 | (60,455) |
| Consultant and contractual expenses | 76,040 | 29,010 | 47,030 |
| Travel expenses | 91,549 | 96,939 | (5,390) |
| Equipment expense | 56,195 | 48,795 | 7,400 |
| Office expense | 37,190 | 34,583 | 2,607 |
| Rent and facility expenses | 125,219 | 145,625 | (20,406) |
| Capital improvements | 109,862 | 44,257 | 65,605 |
| Staff development and training | 28,594 | 26,618 | 1,976 |
| Insurance | 15,697 | 15,697 | - |
| Miscellaneous | <u>-</u> | <u>257</u> | <u>(257)</u> |
| Total expenditures | <u>\$ 3,407,452</u> | <u>\$ 3,402,958</u> | <u>\$ 4,494</u> |
| Excess (deficit) revenues over expenditures | <u>\$ -</u> | <u>\$ 87,238</u> | <u>\$ 87,238</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES
 MENTAL RETARDATION-BUDGET AND ACTUAL
 Year Ended June 30, 2008

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|-------------------------|-------------------------|--|
| Revenues: | | | |
| Fee revenue | \$ 2,321,560 | \$ 2,342,104 | \$ 20,544 |
| Commonwealth of Virginia funds | 109,393 | 109,393 | - |
| Federal funds | 46,773 | 46,773 | - |
| Local funds: | | | |
| County of Alleghany | 25,055 | 25,055 | - |
| City of Covington | 9,728 | 9,728 | - |
| Contributions | 23,555 | 16,355 | (7,200) |
| Other | <u>68,127</u> | <u>67,132</u> | <u>(995)</u> |
| Total revenues | <u>\$ 2,604,191</u> | <u>\$ 2,616,540</u> | <u>\$ 12,349</u> |
| Expenditures: | | | |
| Personnel | \$ 2,152,207 | \$ 2,043,598 | \$ 108,609 |
| Consumer services | 82,940 | 87,545 | (4,605) |
| Consultant and contractual expenses | 104,727 | 97,314 | 7,413 |
| Travel expenses | 42,883 | 48,600 | (5,717) |
| Equipment expense | 28,621 | 15,605 | 13,016 |
| Office expense | 32,172 | 23,305 | 8,867 |
| Rent and facility expenses | 116,727 | 136,606 | (19,879) |
| Capital improvements | 12,804 | 11,737 | 1,067 |
| Staff development and training | 14,300 | 15,641 | (1,341) |
| Insurance | 16,810 | 16,810 | - |
| Miscellaneous | <u>-</u> | <u>171</u> | <u>(171)</u> |
| Total expenditures | <u>\$ 2,604,191</u> | <u>\$ 2,496,932</u> | <u>\$ 107,259</u> |
| Excess revenues over expenditures | <u>\$ -</u> | <u>\$ 119,608</u> | <u>\$ 119,608</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES
 SUBSTANCE ABUSE-BUDGET AND ACTUAL
 Year Ended June 30, 2008

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|-------------------------------------|-------------------|-------------------|--|
| Revenues: | | | |
| Fee revenue | \$ 27,080 | \$ 36,451 | \$ 9,371 |
| Commonwealth of Virginia funds | 305,304 | 305,304 | - |
| Federal funds | 254,933 | 231,119 | (23,814) |
| Local funds: | | | |
| County of Alleghany | 3,579 | 3,579 | - |
| City of Covington | 1,390 | 1,390 | - |
| Contributions | 1,053 | 958 | (95) |
| Other | <u>2,844</u> | <u>1,349</u> | <u>(1,495)</u> |
| Total revenues | <u>\$ 596,183</u> | <u>\$ 580,150</u> | <u>\$ (16,033)</u> |
| Expenditures: | | | |
| Personnel | \$ 453,593 | \$ 402,632 | \$ 50,961 |
| Consumer services | 75,671 | 82,955 | (7,284) |
| Consultant and contractual expenses | 4,701 | 5,079 | (378) |
| Travel expenses | 4,217 | 4,192 | 25 |
| Equipment expense | 6,400 | 4,002 | 2,398 |
| Office expense | 5,662 | 5,420 | 242 |
| Rent and facility expenses | 26,262 | 24,114 | 2,148 |
| Capital improvements | 6,779 | - | 6,779 |
| Staff development and training | 9,471 | 8,076 | 1,395 |
| Insurance | 3,427 | 3,427 | - |
| Miscellaneous | <u>-</u> | <u>38</u> | <u>(38)</u> |
| Total expenditures | <u>\$ 596,183</u> | <u>\$ 539,935</u> | <u>\$ 56,248</u> |
| Excess revenues over expenditures | <u>\$ -</u> | <u>\$ 40,215</u> | <u>\$ 40,215</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

COMPONENT UNIT-FOUNDATION
SEPARATE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

| ASSETS | <u>2008</u> | <u>2007</u> |
|--|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 23,514 | \$ 112,834 |
| Prepaid expenses | 19,089 | - |
| Accounts receivable-Community Services Board | <u>68,727</u> | <u>34,756</u> |
| | <u>\$ 111,330</u> | <u>\$ 147,590</u> |
| PROPERTY AND EQUIPMENT | | |
| Land | \$ 440,745 | \$ 440,745 |
| Buildings | 1,984,172 | 1,857,089 |
| Vehicles | 555,824 | 562,464 |
| Leasehold improvements | - | 12,105 |
| Furniture and fixtures | <u>43,612</u> | <u>54,968</u> |
| | \$3,024,353 | \$2,927,371 |
| Less accumulated depreciation | <u>606,639</u> | <u>529,535</u> |
| | <u>\$2,417,714</u> | <u>\$2,397,836</u> |
| Total assets | <u>\$2,529,044</u> | <u>\$2,545,426</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 26,418 | \$ 25,870 |
| | <u>\$ 26,418</u> | <u>\$ 25,870</u> |
| LONG-TERM DEBT, less current maturities | <u>\$ 25,800</u> | <u>\$ 52,218</u> |
| Total liabilities | <u>\$ 52,218</u> | <u>\$ 78,088</u> |
| NET ASSETS | | |
| Retained earnings | \$ 255,262 | \$ 245,773 |
| Contributed capital | <u>2,221,564</u> | <u>2,221,565</u> |
| Total unrestricted net assets | <u>\$2,476,826</u> | <u>\$2,467,338</u> |
| Total liabilities and net assets | <u>\$2,529,044</u> | <u>\$2,545,426</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

COMPONENT UNIT-FOUNDATION
 SEPARATE STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|-------------------|---------------------|
| Operating revenue: | | |
| Property maintenance fees | \$ <u>159,722</u> | \$ <u>79,891</u> |
| Expenses: | | |
| Depreciation | \$ 148,471 | \$ 133,180 |
| Taxes and licenses | 25 | 56 |
| Moving expenses | 5,505 | - |
| Bank service charges | 20 | 629 |
| Interest expense | 4,232 | 4,999 |
| Contributions | - | 100 |
| Miscellaneous expense | <u>555</u> | <u>554</u> |
| Total expenses | \$ <u>158,808</u> | \$ <u>139,518</u> |
| Operating income (loss) | \$ <u>914</u> | \$(<u>59,627</u>) |
| Non-operating revenue: | | |
| Interest income | \$ 1,681 | \$ 40,296 |
| Gain (loss) on disposal of property | (1,371) | 500 |
| Miscellaneous refunds and rebates | <u>8,265</u> | <u>-</u> |
| Total non-operating revenue | \$ <u>8,575</u> | \$ <u>40,796</u> |
| Change in net assets | <u>\$ 9,489</u> | <u>\$(18,831)</u> |

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

RECONCILIATION OF REVENUES AND EXPENDITURES
OF THE FOURTH QUARTER REPORT TO THE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

| <u>Amounts per fourth quarter report:</u> | <u>Revenues</u> | <u>Federal Revenues</u> | <u>Expenditures</u> |
|--|---------------------|-----------------------------|---------------------|
| Mental Health | \$ 3,545,737 | \$ 48,951 | \$ 3,360,715 |
| Mental Retardation | 2,621,260 | - | 2,489,106 |
| Substance Abuse | <u>603,831</u> | <u>254,933</u> | <u>539,110</u> |
| Total | <u>\$ 6,770,828</u> | <u>\$ 303,884</u> | <u>\$ 6,388,931</u> |
| <u>Amounts per audit report:</u> | \$ 6,750,617 | \$ 327,469 | \$ 6,396,465 |
| Client fees adjustment to accrual basis | 4,828 | | |
| Federal funds deferred revenue adjustment | 23,814 | 23,814 | |
| State deferred revenue adjustment | 48,782 | | |
| Part C grant funding | | (46,773) | |
| Medicaid cost settlement | (42,240) | | |
| Emergency response funds | | (627) | |
| Accruals and adjustments | 426 | | (45,880) |
| Payments to Alleghany Highlands Community Services Board Foundation reported as expenses on fourth quarter report | | | 152,898 |
| Alleghany Highlands Community Services Board Foundation revenues and expenses | (15,399) | | (10,337) |
| Recovery of (provision for) bad debts | | | 407 |
| Fixed assets capitalized | | | 110,483 |
| Depreciation expense | | | (216,145) |
| Compensated absences | | | 1,044 |
| Rounding | <u>-</u> | <u>1</u> | <u>(4)</u> |
| | <u>\$ 6,770,828</u> | <u>\$ 303,884</u> | <u>\$ 6,388,931</u> |

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

SCHEDULE OF ANALYSIS OF FUNDING PROGRESS
Year Ended June 30, 2008

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio a/b | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|------------------------|---------------------------|---|
| 6/30/07 | \$4,481,828 | \$4,516,338 | \$ 34,510 | 99.24% | \$2,224,195 | 1.55% |
| 6/30/06 | \$3,873,111 | \$3,870,439 | \$(2,672) | 100.07% | \$2,062,699 | -0.13% |
| 6/30/05 | \$3,568,800 | \$3,516,656 | \$(52,144) | 101.48% | \$1,921,675 | -2.71% |
| 6/30/04 | \$3,344,339 | \$2,786,954 | \$(557,385) | 120.00% | \$1,698,101 | -32.82% |
| 6/30/03 | \$3,151,450 | \$2,399,333 | \$(752,117) | 131.35% | \$1,489,110 | -50.51% |

ALLEGHANY HIGHLANDS CSB
STANDARD SCHEDULE OF
CURRENT PROPERTY & CASUALTY INSURANCE
FYE 6/30/08

| Insurance Coverage | Ins. Co. / Agent/ Policy # | Policy Period | Limits of Liability | | Ded. | Annual Premium |
|---|---|-----------------------|---|--|------|-------------------|
| Automobile Liability Physical Damage | Co:VACO Risk Management Ag: Pol. #:VA-AL-003C-08 | 07/01/07- 07/01/08 | BI/PD Uninsured Motorist Medical Payments ACV-Comprehensive ACV-Collision | \$200000 \$Statutory \$ 5000 | 1000 | 13610 |
| Boiler & Machinery | Co: VACO Risk Management Ag: Pol. #:BM21-3668A824- TIL-07 | 07/01/07- 07/01/08 | Direct Damage Business Income Extra Expense | \$Blanket \$100000 \$100000 | 1000 | 765 |
| Crime | Co: VACO Risk Management Ag: Pol. #:VA-AL-003C-08 | 07/01/07- 07/01/08 | Employee Dishonesty Forgery or Alteration Money & Securities Money Orders | \$250000 \$250000 \$250000 \$250000 | 250 | 710 |
| Electronic Data Processing | Co: VACO Risk Management Ag: Pol. #:VA-AL-003C-08 | 07/01/07- 07/01/08 | Hardware Software Extra Expense | \$500000 \$Included \$5000 | 1000 | 703 |
| Garage Liability | Co: N/A Ag: Pol. #: | | Garage Liability Garage keepers (Direct or Legal Liability?) | \$ \$ | | N/A |
| General Liability | Co:VACO Risk Management Ag: Pol.#.VA-AL-003C-08 | 07/01/07- 07/01/08 | Aggregate Occurrence Medical Employee Benefits | \$Unlimited \$2000000 \$5000 \$ | 1000 | 3647 |
| Medical Malpractice | Co: VARISK Ag: Pol. #:G99269 | 07/01/07- 06/30/08 | Occurrence Aggregate | \$1925000 \$Unlimited | 1000 | 3446 |
| Public Officials Liability | Co: VARISK Ag: Pol #:G99269 | 07/01/07- 06/30/08 | Occurrence Aggregate | \$1000000 \$Unlimited | 1000 | 4446 |
| Property | Co: VACO Risk Management Ag: Pol. VA-AL-003C-08 | 07/01/07- 07/01/08 | Real Property Personal Property Business Income | \$4428500 \$1695000 \$100000 | 1000 | 8610 |
| Umbrella/Excess | Co: N/A Ag: Pol. #: | | Occurrence Aggregate | \$ \$ | | N/A |
| Workers Compensation | Co:VACO Risk Management Ag: Pol. #:VA-AL-003C-08 | 07/01/07- 07/01/08 | Each Accident Policy Limit – Disease Each Employee- Disease | \$1000000 \$1000000 \$1000000 | N/A | 62413 |
| Miscellaneous Coverage | | | | | | 98350 |
| | | | | | | Total |

ALLEGHANY HIGHLANDS COMMUNITY SERVICES BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|----------------------------|---|-----------------------------|
| <u>United States Department of Health and Human Services:</u> | | | |
| <u>Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:</u> | | | |
| Block Grants for Prevention and Treatment of Substance Abuse: | 93.959 | N/A | |
| Alcohol & Drug Block Grant | | | \$ 126,186 |
| Alcohol & Drug Block Grant-Women's Set-Aside | | | 8,504 |
| Alcohol Block Grant-State Facility Diversion | | | 25,000 |
| Prevention | | | 47,565 |
| SARPOS | | | <u>14,805</u> |
| | | | \$ 222,060 |
| COSIG-Substance Abuse | 93.243 | N/A | <u>9,059</u> |
| | | | \$ 231,119 |
| Block Grant for Community Mental Health Services: | 93.958 | N/A | |
| SED C&A | | | \$ 36,129 |
| SMI | | | 12,821 |
| Emergency Preparedness & Response Funds | 93.889 | N/A | <u>627</u> |
| | | | \$ 49,577 |
| <u>United States Department of Education:</u> | | | |
| <u>Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:</u> | | | |
| Special Education-Grants for Infants and Families With Disabilities: | 84.181 | N/A | |
| Part C Early Intervention | | | \$ 46,773 |
| Total Federal Awards Expended | | | <u>\$ 327,469</u> |

See Notes to Financial Statements.