

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**FINANCIAL REPORT**

**June 30, 2008**

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# **INTRODUCTORY SECTION**

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**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**June 30, 2008**

Board of Directors

Lynn Doss, Chair

Nancy Brockman, Vice-Chair

Clyde Clark

Debbie Parker

William Craft

Annie Pollard

Stan Goldsmith

Clyde Porter

Jeff Helgeson

Marsha Rose

Don Kidd

William Schneider

Dana Koenig

Phil Thiesen

Gary Marple

Principal Management Team

Nancy Cottingham

Executive Director

L. Wayne Trent

Director of Administration and Finance

Felicia Prescott

Director of Adult and Family Services

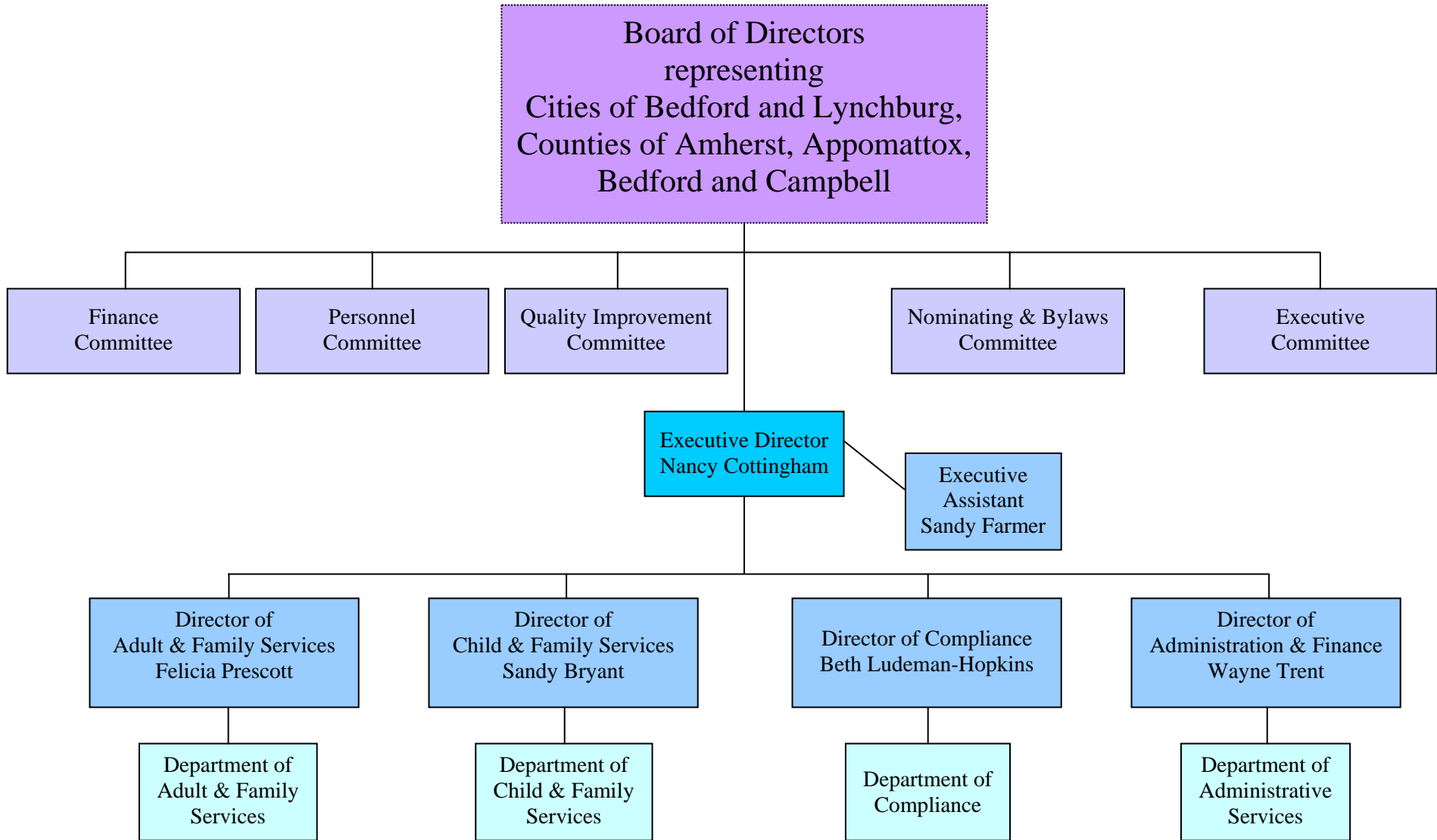
Sandy Bryant

Director of Child and Family Services

Elizabeth Ludeman Hopkins

Director of Compliance

# Central Virginia Community Services



## **FINANCIAL SECTION**

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**The Financial Section contains  
the Basic Financial Statements.**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Central Virginia Community Services Board  
Lynchburg, Virginia

We have audited the accompanying basic financial statements of the Central Virginia Community Services Board (the "Board"), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2009 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Board has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Board's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Board. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
January 14, 2009



# **BASIC FINANCIAL STATEMENTS**

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**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**STATEMENT OF NET ASSETS**

**June 30, 2008**

**ASSETS**

Current assets	
Cash and cash equivalents (Note 2)	\$ 798,227
Accounts receivable, net (Note 3)	2,401,511
Due from other governments (Note 4)	336,007
Prepaid expenses	169,524
Cash and cash equivalents, restricted for clients (Note 2)	127,766
Total current assets	<u>3,833,035</u>
Noncurrent assets	
Cash and cash equivalents, restricted for debt reserves (Note 2)	272,826
Bond issuance costs	80,255
Capital assets, net (Note 5)	6,243,997
Total noncurrent assets	<u>6,597,078</u>
Total assets	<u>10,430,113</u>

**LIABILITIES**

Current liabilities:	
Accounts payable	686,210
Accrued payroll and related liabilities	322,079
Accrued interest	47,613
Amounts held for clients, payable from restricted assets	127,766
Current portion of long-term liabilities (Note 6)	1,590,762
Total current liabilities	<u>2,774,430</u>
Long-term liabilities (Note 6)	3,631,093
Total liabilities	<u>6,405,523</u>

**NET ASSETS**

Invested in capital assets, net of related debt	2,151,742
Unrestricted	1,872,848
Total net assets	<u>\$ 4,024,590</u>

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**Year Ended June 30, 2008**

**OPERATING REVENUES**

Net client service revenue (Note 9) \$ 24,294,110

**OPERATING EXPENSES**

Salaries and benefits	26,016,939
Staff development and recruitment	347,676
Facility	707,788
Supplies	968,839
Travel	357,450
Contractual and professional services	2,744,234
Leases	1,798,323
Insurance	321,041
Depreciation	494,279
Other	212,141
Total operating expenses	<u>33,968,710</u>
Operating loss	<u>(9,674,600)</u>

**NONOPERATING REVENUES (EXPENSES)**

Commonwealth of Virginia grants	5,308,147
Federal grants	2,806,459
Contributions from participating local governments (Note 10)	870,412
Interest income	42,244
Interest expense	(108,665)
Other income	48,787
Net nonoperating revenues	<u>8,967,384</u>
Change in net assets	(707,216)

**NET ASSETS AT JULY 1, AS RESTATED (NOTE 14)** 4,731,806

**NET ASSETS AT JUNE 30** \$ 4,024,590

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2008**

**OPERATING ACTIVITIES**

Receipts from clients, private insurers, Medicaid and others	\$ 23,686,949
Payments to suppliers	(7,207,317)
Payments to employees	(25,715,436)
Other expenses	(3,554)
	<hr/>
Net cash used in operating activities	(9,239,358)

**NON-CAPITAL FINANCING ACTIVITIES**

Contributions from local, State, and Federal Governments	9,013,883
Other receipts	48,787
	<hr/>
Net cash provided by non-capital financing activities	9,062,670

**CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(2,556,537)
Proceeds from the issuance of debt	2,463,174
Interest paid on debt	(168,745)
Issuance costs paid on debt	(80,255)
Principal paid on debt	(67,156)
	<hr/>
Net cash used in capital and related financing activities	(409,519)

**INVESTING ACTIVITIES**

Interest received	42,244
	<hr/>
Net cash provided by investing activities	42,244
	<hr/>
Net decrease in cash and cash equivalents	(543,963)

**CASH AND CASH EQUIVALENTS**

Beginning at July 1, as restated (Note 14)	1,742,781
Ending at June 30	<hr/>
	\$ 1,198,818

**RECONCILIATION TO STATEMENT OF NET ASSETS**

Cash and cash equivalents	\$ 798,227
Cash and cash equivalents, restricted for clients	127,766
Cash and cash equivalents, restricted for debt reserves	\$ 272,826
	<hr/>
	\$ 1,198,819

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2008**

**RECONCILIATION OF OPERATING LOSS TO NET**

**CASH USED IN OPERATING ACTIVITIES**

Operating loss	\$ (9,674,600)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	494,279
Increase in:	
Accounts receivable	(605,678)
Prepaid expenses	(122,913)
Increase (decrease) in:	
Accounts payable	371,605
Accrued payroll and related liabilities	116,749
Compensated absences	184,754
Amounts held for clients, payable from restricted assets	(3,554)
Net cash used in operating activities	<u><u>\$ (9,239,358)</u></u>

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Mortgage receivable credited towards facility purchase	\$ 800,000
Mortgage receivable assumed as part of facility purchase	318,174
Total noncash capital and related financing activities	<u><u>\$ 1,118,174</u></u>

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

Financial reporting entity:

Central Virginia Community Services Board (the "Board") is a jointly governed entity that operates as an agent for the Counties of Amherst, Appomattox, Bedford and Campbell, and the Cities of Lynchburg and Bedford 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* (1950), relating to the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services. In addition, the Board provides a system of community mental health, mental retardation and substance abuse services which relate to and are integrated with existing and planned programs. Substantially all of the entity's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the aforementioned localities.

Measurement focus and basis of accounting:

The Board is a governmental health care entity and follows the accounting and reporting practices of the Governmental Accounting Standards Board. The Board's financial statements consist of a single enterprise fund, and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the Board's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Board also has the option of following subsequent private-sector guidance, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are fees collected from clients and the related collections from the various third-party insurers including Medicaid. Operating expenses consist of the direct and indirect costs of fulfilling the programs of the Board. All other revenues and expenses are reported as nonoperating revenues and expenses.

Use of estimates:

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported revenues and expenses. Actual results could differ from those estimates.

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Cash and cash equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Valuation of receivables:

Receivables are reported net of the estimated allowance for uncollectible accounts. Management estimates this allowance using historical collection data and the aging of accounts receivable.

Net client service revenue:

Net client service revenue is reported at the estimated net realizable amounts from clients, residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment.

Financial assistance:

The Board is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged varies based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, such amounts are not reported as revenue.

Capital assets:

Capital assets include property and equipment with an initial, individual cost of more than \$1,000 (\$500 for information systems equipment) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not materially add to the value of an asset or its life are expensed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	33 1/3 years
Furniture and equipment	3 to 10 years
Motor vehicles	5 years

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Restricted assets:

The Board segregates funds held on behalf of clients and for debt service reserves.

Compensated absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave does not vest with the employee and is recorded as an expense when paid. Vacation and certain other compensated absences do vest with the employee. Provision for the estimated liability for these compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

**Note 2. Deposits and Investments**

Deposits:

All cash of the Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Current Board policy is to automatically invest cash reserves on a daily basis through the use of repurchase agreements with the Board's bank.

Concentration of credit risk:

The Board does not have an investment policy regarding the concentration of credit risk.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 2. Deposits and Investments (Continued)**

Interest rate risk:

The Board's investment policy does not address interest rate risk, but at June 30, the Board had no investments other than a money market mutual fund.

Deposits and investments:	
Cash on hand	\$ 3,950
Deposits	922,043
Money market mutual fund	272,826
	<hr/>
	\$ 1,198,819
	<hr/>
Statement of net assets:	
Cash and cash equivalents	\$ 798,227
Cash and cash equivalents-restricted for clients	127,766
Cash and cash equivalents-restricted for debt reserves	272,826
	<hr/>
	\$ 1,198,819
	<hr/>

**Note 3. Accounts Receivable, net**

Accounts receivable, net consists of the following:

Virginia Department of Medical Assistance Services (Medicaid)	\$ 2,119,195
Direct client	1,337,702
Third party insurers and other	352,900
	<hr/>
	3,809,797
Allowance for uncollectible accounts	1,408,286
	<hr/>
Accounts receivable, net	\$ 2,401,511
	<hr/>

**Note 4. Due From Other Governments**

Amounts due from other governments are for the reimbursement of expenditures and fees for services provided under various programs and grants. The following is a summary of these receivables.

Virginia Department of Medical Assistance Services - ICF/MR	\$ 76,775
Federal government - SAMSHA grant	46,371
Other programs	212,861
	<hr/>
	\$ 336,007
	<hr/>

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**Note 5. Capital Assets**

Capital asset activity for the year was as follows:

	<b>Beginning Balance*</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, nondepreciable				
Land	\$ 277,405	\$ 227,875	\$ -	\$ 505,280
Capital assets, depreciable				
Building and improvements	2,657,150	3,025,000	-	5,682,150
Furniture and equipment	2,598,188	69,592	65,752	2,602,028
Vehicles	798,081	76,969	38,413	836,637
Capital assets, depreciable	6,053,419	3,171,561	104,165	9,120,815
Less accumulated depreciation	2,979,087	494,279	91,268	3,382,098
Capital assets, depreciable, net	3,074,332	2,677,282	(12,897)	5,738,717
Capital assets, net	<u>\$ 3,351,737</u>	<u>\$ 2,905,157</u>	<u>\$ (12,897)</u>	<u>\$ 6,243,997</u>

\*Beginning balances of the vehicles and accumulated depreciation accounts have been restated. See Note 14.

**Note 6. Long-Term Liabilities**

The following is a summary of changes in long-term liabilities:

	<b>Beginning Balance*</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Mortgages payable	\$ 1,525,000	\$ 2,463,174	\$ 168,745	\$ 3,819,429	\$ 188,336
Compensated absences	1,217,672	184,754	-	1,402,426	1,402,426
Total	<u>\$ 2,742,672</u>	<u>\$ 2,647,928</u>	<u>\$ 168,745</u>	<u>\$ 5,221,855</u>	<u>\$ 1,590,762</u>

\*Beginning balance of long-term debt has been restated. See Note 14.

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**Note 6. Long-Term Liabilities (Continued)**

Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 188,336	\$ 192,276
2010	179,681	194,412
2011	191,125	186,043
2012	192,675	177,149
2013	199,338	167,938
2014-2018	1,096,237	687,079
2019-2023	842,037	412,864
2024-2028	750,000	188,314
2029	180,000	5,895
	<u>\$ 3,819,429</u>	<u>\$ 2,211,970</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Due</u>
VHDA Mortgage payable*	7.10%	Dec. 2007	Nov. 2019	\$ 318,174	\$ 309,429
VML/VACo	3.14%	June 2006	June 2021	\$ 1,665,000	1,365,000
VML/VACo	6.55%	Feb. 2008	Aug. 2028	\$ 2,145,000	<u>2,145,000</u>
					<u>\$ 3,819,429</u>

\*The Board assumed this mortgage as part of its purchase of its purchase of certain real estate in December 2007. The mortgage on this real estate was originally issued to the prior owner in June 1989 for \$469,850.

**Note 7. Lease Commitments**

The Board leases office space, other facilities, and vehicles under lease terms which range from monthly to eleven years. Future minimum lease requirements under non-cancellable leases are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 1,047,348
2010	633,064
2011	139,159
2012	97,823
2013	97,823
2014-2018	<u>382,871</u>
	<u>\$ 2,398,088</u>

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 8. Defined Pension Benefit Plan**

Plan description:

The Board contributes to the Virginia Retirement System (VRS), an agent and cost sharing multiple-employer defined benefit pension plan administered by the VRS.

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 or at age 50 with at least 30 years of service if elected by the employer payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of salary. 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 limited to 5% per year beginning in their second year of retirement. 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 Central Assembly of Virginia.

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

Funding policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (the "Code") (1950), as amended, to contribute 5% of their annual salary to the VRS. The Board may and has assumed this 5% member contribution. In addition, the Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code and approved by the VRS Board of Trustees. The Board's contribution rate for fiscal year 2008 was 3.13% of the annual covered payroll, not including the employee's share of 5% paid by the employer.

Annual pension cost:

For fiscal year 2008, the Board's annual pension cost, not including the employee share assumed by the Board, of \$560,874 was equal to the Board's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial valuation is performed on a biennial basis. The actuarial assumptions on which the contributions for 2008 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 the Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

**Note 8. Defined Pension Benefit Plan (Continued)**

Trend Information:

<b>Trend Information</b>			
<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/2006	\$ 154,790	100%	-
6/30/2007	\$ 515,533	100%	-
6/30/2008	\$ 560,874	100%	-

<b>Schedule Of Funding Progress</b>						
	<b>(a)</b>	<b>(b)</b>	<b>(b-a)</b>	<b>(a/b)</b>	<b>(c)</b>	<b>((b-a)/c)</b>
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded) Actuarial Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as of Percentage of Covered Payroll</b>
6/30/2007	\$ 21,701,811	\$ 19,176,235	\$ (2,525,576)	113.17%	\$ 16,934,145	(14.91)%
6/30/2006	\$ 18,413,774	\$ 16,297,163	\$ (2,116,611)	112.99%	\$ 15,924,827	(13.29)%
6/30/2005	\$ 16,604,414	\$ 14,778,920	\$ (1,825,494)	112.35%	\$ 14,083,171	(12.96)%

**Note 9. Net Client Service Revenue**

Net client revenues were from the following sources:

Medicaid	\$ 21,290,750
Direct client fees	551,100
Third-party and other	2,452,260
	<u>\$ 24,294,110</u>

**Note 10. Contributions from Participating Local Governments**

Contributions from participating local governments are as follows:

County of Amherst	\$ 98,583
County of Appomattox	36,958
City of Bedford	10,967
County of Bedford	101,037
County of Campbell	153,223
City of Lynchburg	469,644
	<u>\$ 870,412</u>

(Continued)

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 11. Commitments and Contingencies**

State and Federal Grants and Programs:

Certain state and federal grants and programs are subject to audit to determine compliance with their requirements. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

**Note 12. Risk Management**

The Board participates in the Virginia Association of Counties Group Self-Insurance Risk Pool for various liability coverages which have up to \$4,000,000 in coverage limits. The Board participates in the Virginia Municipal League Risk Pool for workers compensation coverage. There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles, and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

**Note 13. Subsequent Event**

On October 2, 2008, the Board completed the purchase of the Altavista Group Home in Altavista, Virginia for approximately \$250,000, financed fully by VML/VACo commercial paper.

**Note 14. Restatement of Net Assets**

The following is a summary of the restatements of the Board's net assets effective June 30, 2007.

Net assets June 30, 2007, as previously stated	\$ 5,917,930
Restatement to:	
Adjust debt reserve cash and cash equivalents account to actual	12,034
Correct overstatement of accounts payable	139,156
Correct understatement of prepaid expenses	12,201
Correct errors in accumulated depreciation	82,026
Record holiday time payable	(50,000)
Properly record capital asset	9,036
Correct overstatement of accounts receivable for two facilities	(1,043,459)
Adjust allowance for uncollectible accounts based on revised estimate of collection percentages	(250,000)
Record payable for amounts due back to DMAS for overpayments on two facilities	(146,737)
Remove operating leases incorrectly shown as capital leases	49,619
Restatement of net assets	<u>(1,186,124)</u>
Net assets June 30, 2007 as restated	<u>\$ 4,731,806</u>

**OTHER  
SUPPLEMENTARY INFORMATION**

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**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**SCHEDULE OF INSURANCE  
June 30, 2008**

**Insurance Coverages**

<b>Insurance Company</b>	<b>Policy No.</b>	<b>Policy Period</b>	<b>Annual Policy Cost</b>	<b>Insurance Coverage</b>	<b>Deductible</b>
Virginia Association of Counties Group Self-insurance Risk Pool	VA-CE-012A-07	07/01/07-06/30/08	\$ 66,234	Automobile Liability/Comprehensive and Collision	\$ 4,000,000 \$ 1,000
				Medical payments	5,000 1,000
				Uninsured motorists	1,000,000 1,000
			735	Employee dishonesty	250,000 250
				Electronic data processing	
			1,051	Blanket coverage	704,450
				Blanket software	67,500 -
				Reproduction costs	5,000
			16,452	Property coverages, 90% co-insurance	
				Real property	7,006,180 500
				Personal property	1,400,300 500
				Business income	1,840,000
			19,187	General liability	
				Personal injury	4,000,000
				Products and completed operations	4,000,000
				Medical	
				Per person	5,000 -
				Per accident	10,000
				Employee benefits	
				Liability	4,000,000 -
				Fire legal liability	100,000
				Broad form property coverage	100,000 -
			34,330	Medical malpractice	
				Per occurrence	1,850,000 1,000
Virginia Municipal League	VMGSIA-581	07/01/07-06/30/08	141,844	Workers compensation	1,000,000

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**CLIENT STATISTICS  
Last Three Fiscal Years**

<b>Description</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Unduplicated Clients Served			
Mental Health	4,425	4,968	4,640
Mental Retardation	1,085	667	623
Substance Abuse	1,144	1,780	1,662
Mental Health Residential Client Days	1,578	1,780	1,537
Mental Retardation Residential Client Days	18,999	18,252	18,411
Substance Abuse Residential Client Days	8,538	9,641	9,376



## **COMPLIANCE SECTION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Central Virginia Community Services Board  
Lynchburg, Virginia

We have audited the financial statements of the Central Virginia Community Services Board (the "Board"), as of and for the year ended June 30, 2008 and have issued our report thereon dated January 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. **We consider the deficiencies identified as Items 08-1, 08-2, and 08-3 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.**

### Internal Control over Financial Reporting (Continued)

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph in this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. **However, we consider the significant deficiencies described above to be material weaknesses.**

### Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the Board in a separate letter dated January 14, 2009.

The Board's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Board's responses and, accordingly, we express no opinion on them.

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

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
January 14, 2009

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

To the Board of Directors  
Central Virginia Community Services Board  
Lynchburg, Virginia

Compliance

We have audited the compliance of the Central Virginia Community Services Board (the “Board”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2008. The Board’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Board’s management. Our responsibility is to express an opinion on the Board’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County’s compliance with those requirements.

**In our opinion, the Central Virginia Community Services Board complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.**

## Internal Control over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

*Brown, Edwards & Company, L.L.P.*  
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
January 14, 2009

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2008**

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
<u>Department of Justice</u>		
Pass-Through Payments:		
Virginia Department of Criminal Justice Services Victims of Child Abuse	16.540	\$ <u>59,280</u>
<u>Department of Education</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services: Early Intervention – Part C	84.181	<u>358,307</u>
<u>Department of Health and Human Services</u>		
Direct Payments:		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	569,919
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Consolidated Knowledge Development and Application (KD & A)	93.230	5,775
PATH	93.150	29,648
Mental Health Block Grant	93.958	180,689
Substance Abuse Prevention and Treatment Block Grant	93.959	<u>1,602,841</u>
Total Department of Health and Human Services		<u>2,388,872</u>
Total expenditures of federal awards		<u>\$ 2,806,459</u>

Note: The schedule of expenditures of federal awards presents the activity of all federal award programs of the Central Virginia Community Services Board and is presented on the accrual basis of accounting.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2008**

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

**STATE COMPLIANCE MATTERS**

*Code of Virginia*

Cash and Investment Laws

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

**FEDERAL COMPLIANCE MATTERS**

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2008**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Three significant deficiencies** relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Items 08-1, 08-2, and 08-3 were determined to be material weaknesses.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to major programs.**
7. The programs tested as major are:

Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243
Substance Abuse Prevention and Treatment Block Grant	93.959
8. The threshold for distinguishing Type A and B programs was **\$300,000.**
9. Central Virginia Community Services Board was determined to be a **low-risk auditee.**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**08-1: Auditor Adjustments (Material Weakness)**

*Condition:*

We proposed numerous journal entries deemed material to the financial statements.

*Recommendation:*

Management should take steps to ensure that all significant accounts are reconciled and properly adjusted. Monitoring of significant account balances should be a normal practice throughout the year.

*Management's Response:*

Of the 14 instances cited, seven were corrections to entries either *made* by previous independent auditors for FYs 06, and 07, or *not addressed* by those same auditors. The remaining corrections have, in the past, been completed by the audit firm at the close of the audit. The FY 07 audit report was not received until April, 2008, and due to its extreme lateness, we discontinued our relationship with that auditor upon receipt of the report, and contracted with the current audit firm who began their field work in mid-June, before year end. The significance of the adjustments required was not realized and no outside consultation was sought. However, these will be monitored during the year and we have made arrangements for an accounting consultant to prepare these adjustments for the current year prior to audit.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2008**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**08-2: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. A lack of segregation of duties exists in several functions related to accounts payable and cash disbursements, general ledger functions, bank account access and reconciliations, payroll processing, and accounts receivable. Fully eliminating some of these control deficiencies may not be possible without additional personnel.

*Recommendation:*

Steps should be taken to eliminate the performance of conflicting duties where possible. Management may be able to introduce compensating controls in certain instances where duties cannot be adequately separated.

*Management's Response:*

CVCS does not currently have enough employees to comply with the *ideal* segregation of duties as suggested. However, changes will be made as are possible. Beginning at the end of January, the bank reconciliations will be performed by a staff member separated from the general ledger function.

Further changes will enhance separation of responsibilities by requiring the involvement of two positions in each disbursement function. Data will be entered by a clerical position and the files in both payroll and accounts payable will be compared, verified and authorized by a separate position that does not do data entry. Further, every expenditure will *continue* to be authorized and approved by the Fiscal Services Administrator increasing the current process from the involvement of two staff to the involvement of three staff. The accounts receivable department will ensure that two staff open the mail each day and a third staff member will take deposits to the bank. At the outlying offices, no change in duties can be made when there is only one administrative person. For those sites having more than one, a change of duties will be recommended to the department directors under whom these staff operate.

**08-3: Accounts Receivable Ledgers (Material Weakness)**

*Condition:*

The subsidiary ledgers for accounts receivable do not reconcile to the general ledger by a material amount. This condition stems primarily from amounts having been written off as uncollectible on the general ledger, but not on the subsidiary ledgers. Further, reconciliations are not being performed between the subsidiary ledger and the general ledger to monitor this discrepancy and other changes in receivable balances.

**CENTRAL VIRGINIA COMMUNITY SERVICES BOARD**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2008**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**08-3: Accounts Receivable Ledgers (Material Weakness) (Continued)**

*Recommendation:*

Steps should be taken to eliminate this material discrepancy and to monitor the reconciliation process to ensure the general ledger accurately reflects outstanding receivables.

*Management's Response:*

When converting to the CMHC system in 1998, all account balances at the time were brought over to the new system regardless of their deemed collectability at the time. A subsequent audit identified a large portion as uncollectable and acknowledged the estimated 100,000 manual entries needed to write them off. It was decided by those auditors to reduce the General Ledger AR balance for reporting purposes and leave the subsidiary ledgers as they were. Last year's audit report (by a different audit firm) again brought up these balances as needing attention, but did not consider it to be a material weakness. Since then, both Reimbursement and IT staff have been considering ways to reduce the manual burden of this write-off effort and have consulted with representatives from our software supplier to find an automated solution. None exists and IT staff have agreed to assume the bulk of responsibility of the data entry duties in writing off all these accounts by the end of June 2009.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.