

**EASTERN SHORE COMMUNITY
SERVICES BOARD**

ANNUAL FINANCIAL REPORT

**FISCAL YEARS ENDED
JUNE 30, 2008 AND 2007**



EASTERN SHORE COMMUNITY SERVICES BOARD

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EASTERN SHORE COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

Mr. J. T. Holland,
Chair

Ms. Muriel Howard,
Vice Chair

Mrs. Florence Parsons,
Treasurer

Rev. William L. Gregory,
Secretary

Ms. Jan Abbott

Ms. Delores Colona

Rev. James E. Davis

Ms. Cookie Francis

Dr. Michael Margolius

EXECUTIVE DIRECTOR

James A. Cannon, III



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Eastern Shore Community Services Board
Nassawadox, Virginia

We have audited the accompanying statements of net assets of Eastern Shore Community Services Board (the "CSB") as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the CSB's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our 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 Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Eastern Shore 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the CSB'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 should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the CSB, taken as a whole. The accompanying financial information listed as supplemental information in the Table of Contents is presented for the purposes of additional analysis and is not a required part of the 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 financial statements of the CSB. The supplemental information has been subjected to the auditing procedures applied in the audits 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.

Didawick & Knapp, P.C.

December 15, 2008



EASTERN SHORE COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2008

This section is intended to provide an overview of the financial activity of the Board and as such should be read in conjunction with the accompanying financial statements.

Summary of Organization and Business

The Eastern Shore Community Services Board (the Board) is a political subdivision of the Commonwealth of Virginia formed in 1971 by the Boards of Supervisors of Accomack and Northampton Counties. The Board's mission is to act as the agent of the two counties in providing community mental health, mental retardation, and substance abuse services in accordance with Chapter 10, Title 37.1-195 of the Code of Virginia.

Operations of the Board are funded by state, federal and local funds, as well as client fees. As of June 30, 2008, the Board had approximately 164 employees providing mental health, mental retardation, substance abuse/prevention, in-home, and administrative support services in twelve different facilities, including counseling centers, residential facilities, day support, prevention, and infant intervention programs. During 2008, the total consumers served were 1471 in Mental Health, 311 in Mental Retardation, and 292 in Substance Abuse. The Board also has a fleet of 79 vehicles used to transport clients to and from CSB programs, doctor's appointments, jobs, and shopping.

HIGHLIGHTS

Financial Highlights for FY 2008

- Cash and investments increased \$300 thousand.
- Net assets increased \$121 thousand.
- Operating revenues increased \$333 thousand.
- Operating expenses increased \$765 thousand.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the financial condition and performance of the Board. The financial statements of the Board are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the Board on an accrual basis, including information about the type and amount of resources and obligations, at June 30, 2008. The

Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the Board's operating and non-operating activities and provides information about changes in net assets during the year. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational and financing activities.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Board's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events.

CONDENSED FINANCIAL INFORMATION

Statement of Net Assets

The following schedule reflects the condensed Statement of Net Assets compared to the prior year.

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Current and other assets	\$ 3,992,727	\$ 3,695,173	\$ 297,554
Capital assets – net	431,065	464,061	(32,996)
Total assets	4,423,792	4,159,234	264,558
Current and other liabilities	1,229,408	1,086,292	143,116
Total liabilities	1,229,408	1,086,292	143,116
Invested in capital assets, net of related debt	431,065	464,061	(32,996)
Unrestricted	2,763,319	2,608,881	154,438
Total net assets	3,194,384	3,072,942	121,442

For more detailed information, see the accompanying Statement of Net Assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Operating revenues			
Net client fees and insurance reimbursements	\$5,553,117	\$5,226,762	\$326,355
Other operating revenues	92,764	66,318	26,446
Total operating revenue	5,625,941	5,293,080	332,861

Operating expenses			
Personnel and other related expenses	6,840,498	5,873,666	966,832
Facility, equipment and vehicle expenses	790,236	803,086	(12,850)
Professional and contractual services	714,887	897,865	(182,978)
Other operating expenses	676,561	682,704	(6,143)
Total operating expenses	9,022,182	8,257,321	764,861
Operating income (loss)	(3,396,241)	(2,964,241)	(432,000)
Non-operating revenues (expenses)			
State, Federal, and Local Appropriations	3,371,557	3,045,029	326,528
Gain on sale of investments and property	1,248	1,534	(286)
Other non-operating revenues	144,878	128,543	16,335
Total non-operating revenues	3,517,683	3,175,106	342,577
Change in net assets	121,442	210,865	(89,423)
Net Assets, beginning of year	3,072,942	2,862,077	210,865
Net Assets, end of year	3,194,384	3,072,942	121,442

For more detailed information, see the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board continues to improve. During FY 08, cash and investments balances increased 10%. The Statement of Net Assets also shows over 350% more total assets than total liabilities, and the Board continues to operate with total revenues exceeding total expenses, indicating a net profit.

The Board continues to monitor ways in which new revenues can be generated and expenses can be scaled back. Upgrading and investing in information technology equipment is one step the Board is taking in order to enhance employee productivity and free up time for revenue-generating activities. The Finance Department has continued to heighten its collections procedures; including the use of clinical staff in the collection of amounts due from clients in order to increase the Board's collection percentage. In addition, a Process Improvement Committee has been developed to streamline the clinical paper workload, allowing for increased service provision.

CONTACTING THE BOARD

This financial report is designed to provide an overview of the financial results of the Board's activities, and to demonstrate the Board's accountability for its revenues. If there are any questions about this report or any financial issue regarding the Board, please contact the Director of Financial Operations, P.O. Box 453, Nassawadox, VA 23413.

FINANCIAL STATEMENTS



EASTERN SHORE COMMUNITY SERVICES BOARD
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,323,328	\$ 3,022,682
Receivables:		
Medicaid/Medicare	481,502	534,458
Consumer (net of allowance for doubtful accounts of \$210,330 in 2008 and \$263,100 in 2007)	148,366	103,982
Prepaid expenses	<u>39,531</u>	<u>34,051</u>
Total current assets	3,992,727	3,695,173
Capital assets, net	<u>431,065</u>	<u>464,061</u>
Total assets	<u>4,423,792</u>	<u>4,159,234</u>
Liabilities		
Current liabilities:		
Accounts payable	148,534	178,759
Accrued expenses	207,114	151,270
Compensated absences	666,348	607,693
Deferred revenues	<u>207,412</u>	<u>148,570</u>
Total liabilities	<u>1,229,408</u>	<u>1,086,292</u>
Net Assets		
Invested in capital assets, net of related debt	431,065	464,061
Unrestricted	<u>2,763,319</u>	<u>2,608,881</u>
Total Net Assets	<u>\$ 3,194,384</u>	<u>\$ 3,072,942</u>

The accompanying notes are an integral part of these financial statements.



EASTERN SHORE 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 client fees and insurance reimbursements	\$ 5,533,177	\$ 5,226,762
Workshop sales - less expenses of \$13,738 in 2008 and \$14,877 in 2007	43,975	49,165
Unrestricted donations	1,866	2,371
Other	<u>46,923</u>	<u>14,782</u>
Total operating revenue	<u>5,625,941</u>	<u>5,293,080</u>
Operating Expenses		
Personnel expenses	6,815,464	5,856,579
Staff development expenses	25,034	17,087
Facility/equipment supplies and expenses	604,166	660,808
Travel expenses	110,819	109,903
Professional services	42,932	33,851
Contract program expenses	671,955	864,014
Auto expenses	186,070	142,278
Client support	128,703	154,772
Depreciation	171,390	163,023
Administrative overhead	<u>265,649</u>	<u>255,006</u>
Total operating expenses	<u>9,022,182</u>	<u>8,257,321</u>
Operating income (loss)	<u>(3,396,241)</u>	<u>(2,964,241)</u>
Non-operating revenues (expenses)		
Interest income	144,878	128,543
Appropriations:		
Commonwealth of Virginia	2,415,351	2,073,535
Federal Government	751,431	766,719
Local governments	204,775	204,775
Gain (loss) on disposition of property	1,248	(539)
Gain (loss) on investments	<u>-</u>	<u>2,073</u>
Total non-operating income	<u>3,517,683</u>	<u>3,175,106</u>
Change in net assets	<u>121,442</u>	<u>210,865</u>
Net Assets, beginning of year	<u>3,072,942</u>	<u>2,862,077</u>
Net Assets, end of year	<u>\$ 3,194,384</u>	<u>\$ 3,072,942</u>

The accompanying notes are an integral part of these financial statements.



EASTERN SHORE 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		
Cash received from client fees and other providers	\$ 5,541,749	\$ 5,188,840
Other unrestricted operating receipts	92,764	66,318
Cash payments for personnel	(6,700,965)	(5,781,387)
Cash payments to suppliers for goods and services	<u>(2,071,033)</u>	<u>(2,183,555)</u>
Net Cash Used by Operating Activities	<u>(3,137,485)</u>	<u>(2,709,784)</u>
Cash Flows from Non-capital Financing Activities		
State and Federal Appropriations	3,224,872	2,915,284
Local Government Appropriations	<u>205,527</u>	<u>205,527</u>
Net Cash Provided by Non-capital Financing Activities	<u>3,430,399</u>	<u>3,120,811</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(150,771)	(173,515)
Sale of property and equipment	<u>13,625</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(137,146)</u>	<u>(173,515)</u>
Cash Flows from Investing Activities:		
Interest received	144,878	128,543
Net sale (purchase) of investments	<u>-</u>	<u>2,073</u>
Net Cash Provided by Investing Activities	<u>144,878</u>	<u>130,616</u>
Net Increase in Cash and Cash Equivalents	300,646	368,128
Balances-Beginning of Year	<u>3,022,682</u>	<u>2,654,554</u>
Balances-End of Year	<u>\$ 3,323,328</u>	<u>\$ 3,022,682</u>
Reconciliation of operating income to net cash used by operating activities		
Operating income (loss)	(3,396,241)	(2,964,241)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation	171,390	163,023
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	8,572	(37,922)
(Increase) decrease in prepaid expenses	(5,480)	(940)
Increase (decrease) in accounts payable	(30,225)	55,104
Increase (decrease) in accrued expenses	55,844	41,462
Increase (decrease) in compensated absences payable	<u>58,655</u>	<u>33,730</u>
Net cash used by operating activities	<u>\$ (3,137,485)</u>	<u>\$ (2,709,784)</u>

The accompanying notes are an integral part of these financial statements.



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 1 – REPORTING ENTITY

The Eastern Shore Community Services Board (the "CSB") operates as an agent for the Counties of Accomack and Northampton, Virginia 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), as amended, relating to the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services. In addition, the CSB provides a system of community mental health, mental retardation, and substance abuse services that relate to and are integrated with existing and planned programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the CSB have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The CSB's significant accounting policies are described below.

Measurement Focus and Basis of Accounting

The term "measurement focus" is used to denote what is being measured and reported in the CSB's operating statements. The CSB is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with the CSB's activities are reported and equity is reported as net assets.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the CSB's financial statements. The CSB uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental units, like the CSB, also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The CSB has elected not to follow subsequent private-sector guidance.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the CSB's principal ongoing operations. The principal operating revenues of the CSB are patient fee-for-service payments and insurance reimbursements. Revenue from patient service charges is recognized as the related service is provided. Operating expenses include the costs associated with providing patient services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the CSB considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The CSB reports investments at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Allowance for Doubtful Accounts

The CSB evaluates its accounts receivable using historical data and, in certain cases, specific account analysis. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment of the CSB is depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Computer equipment and software	5
Leasehold improvements	7–39
Office furniture and equipment	5–12
Vehicles	5–7

Compensated Absences

The CSB has accrued the liability arising from outstanding compensated absences. Employees earn annual leave based on a prescribed formula related to their respective total years of public job related service with any local, state, and/or federal government. A total accumulation of 440 hours may be carried over to the next fiscal year. Employees accrue sick leave at the rate of 10 hours per month. Compensatory leave is accumulated at the rate of one and one-half hours for every qualifying hour of work for those employees not exempt from overtime provisions of the Fair Labor Standard Act of 1938 (the "Act") and employees exempt from the Act accrue compensatory leave on an hour-for-hour basis. An employee terminating employment with the Board is eligible to be paid for accumulated annual and compensatory leave. Employees with at least 5 years of service are eligible to be paid upon termination for 25% of their sick leave balance, not to exceed \$5,000.

Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

Net Client Fees and Insurance Reimbursements

Net client fees and insurance reimbursements are reported at net realizable amounts from clients, third party payers, and others for services rendered.



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes

As a political subdivision of the Commonwealth of Virginia, the CSB is exempt from sales and meals taxes and federal and state income taxes. The CSB is not exempt from hotel and real estate taxes.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Risk Management

The CSB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The CSB purchases commercial insurance for all risks of loss noted above.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

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

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

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the terms and conditions of fees-for-service, insurance reimbursements, and appropriations.

(Notes are continued on the next page)



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

At June 30, 2008 and 2007, all cash of the CSB was 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

As of June 30, 2008 and 2007, the CSB had the following investments:

<u>Investment Type</u>	<u>2008</u>	<u>Weighted Average Maturity (Years)</u>	<u>2007</u>	<u>Weighted Average Maturity (Years)</u>
State investment pool	\$ 891,588	0.003	\$ 854,824	0.003
Total Investments	<u>\$ 891,588</u>		<u>\$ 854,824</u>	

The CSB's investments are subject to interest rate and credit risk as described below. The CSB's investments are not subject to custodial risk or foreign currency risk.

Interest Rate Risk – The CSB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arriving from increasing interest rates.

Credit Risk – Statutes authorize local governments and other public bodies 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). The CSB has no investment policy that would further limit its investment choices. As of June 30, 2008, the CSB's investment in the State Treasurer's Local Government Investment Pool (LGIP) was rated AAAM by Standard & Poor's.

NOTE 5 – CAPITAL ASSETS

A summary of the changes in the CSB's capital assets is as follows:

	<u>Balance 6/30/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/2008</u>
Computer equipment and software	\$ 395,730	\$ 14,115	\$ (535)	\$ 409,310
Leasehold improvements	45,193	-	-	45,193
Office furniture and equipment	250,340	33,891	(588)	283,643
Vehicles	<u>761,692</u>	<u>102,765</u>	<u>(13,105)</u>	<u>851,352</u>
	1,452,955	150,771	(14,228)	1,589,498
Less – accumulated depreciation	<u>(988,894)</u>	<u>(171,390)</u>	<u>1,851</u>	<u>(1,158,433)</u>
Capital assets, net	<u>\$ 464,061</u>	<u>\$ (20,619)</u>	<u>\$ (12,377)</u>	<u>\$ 431,065</u>



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 6 – REVENUES APPROPRIATED FROM LOCAL GOVERNMENTS

Revenues appropriated from local governments for the years ended June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
County of Accomack: Appropriated	\$ 146,502	\$ 146,502
County of Northampton: Appropriated	<u>58,273</u>	<u>58,273</u>
	<u>\$ 204,775</u>	<u>\$ 204,775</u>

NOTE 7 – DEFERRED REVENUES

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue represents a liability incurred by the CSB for money accepted from a grantor using the advance method for payments. The liability is reduced and revenues recorded when expenses are made in accordance with the grantor's requirements. If expenses are not made, the funds may revert to the grantor. At June 30, 2008 and 2007, deferred revenues consisted of the following:

	<u>2008</u>	<u>2007</u>
Part C Grant	\$ 68,622	\$ 40,821
Mental Health Grants	60,438	47,124
Mental Retardation Grants	-	1,193
Substance Abuse Grants	<u>78,352</u>	<u>59,432</u>
	<u>\$ 207,412</u>	<u>\$ 148,570</u>

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan Description

The CSB 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 (age 60 with 5 years of service for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with 30 years of service if elected by the employer (age 50 with 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) 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 limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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 downloaded from its website at <http://www.varetire.org/Pdf2006AnnuRept.pdf> or obtained by writing to the System at P. O. Box 2500, Richmond, VA 23218-2500.



**EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

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. The employer may assume this 5% member contribution. 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 *Code of Virginia* and approved by the VRS Board of Trustees. The CSB's contribution rate for the fiscal years ended June 30, 2008 and 2007 was 2.63% of annual covered payroll for both years.

Annual Pension Cost

For fiscal years ended June 30, 2008 and 2007, the CSB's annual pension cost of \$107,586 and \$93,537 was equal to the CSB's required and actual contributions. The required contributions for fiscal years ended June 30, 2008 and 2007 were determined as part of the June 30, 2005 actuarial valuation, using the entry age normal actuarial cost method. For the fiscal year ended June 30, 2008, 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%. For the fiscal year ended June 30, 2007, the actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 6.20% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. For fiscal years ended June 30, 2008 and 2007, the actuarial value of the CSB'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.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 47,675	100%	\$ -
June 30, 2007	93,537	100%	-
June 30, 2008	107,586	100%	-

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 94.81% funded. The actuarial accrued liability for benefits was \$9,011,954, and the actuarial value of assets was \$8,544,091, resulting in an unfunded actuarial accrued liability (UAAL) of \$467,863. The covered payroll (annual payroll of active employees covered by the plan) was \$3,803,448, and ratio of UAAL to the covered payroll was 12.30%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 9 – RELATED PARTY TRANSACTIONS

The CSB leases facilities under operating leases from Mendisadd, Inc. Mendisadd, Inc. and the CSB share identical Boards of Directors. Rent paid to Mendisadd was \$243,735 and \$219,530 for fiscal years 2008 and 2007, respectively. In addition, the CSB provided \$170,000 to Mendisadd during fiscal year 2007 for the purpose of purchasing real estate and building transitional housing for CSB mental health consumers.



EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2008 and 2007

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Leases

The CSB leases various facilities and equipment under operating agreements. However, none of these leases extend beyond a period of one year.

Federally Assisted Grant Programs

The CSB participates in a number of federally assisted grant programs. Although the CSB has been audited in accordance with the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the CSB believes such disallowances, if any, will not be significant.



EASTERN SHORE COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2005	6,831,762	6,858,299	26,537	99.61%	2,958,574	0.90%
June 30, 2006	7,430,101	8,087,635	657,534	91.87%	3,231,585	20.35%
June 30, 2007	8,544,091	9,011,954	467,863	94.81%	3,803,448	12.30%



SUPPLEMENTAL INFORMATION



EASTERN SHORE COMMUNITY SERVICES BOARD
RECONCILIATION OF REVENUES AND EXPENDITURES PER THE FOURTH QUARTER REPORT
TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

	Admin- stration	Mental Health	Mental Retardation	Substance Abuse	Total
Revenues					
Revenues - 4th quarter state report summary dated October 16, 2008	\$ -	\$ 3,381,861	\$ 4,321,485	\$ 1,431,762	\$ 9,135,108
Accruals/adjustments:					
Revenue reclassification	191,982	70,010	321,851	(313,949)	269,894
Deferred revenues:					
Substance Abuse FBG	-	-	-	(48,861)	(48,861)
Substance Abuse State	-	-	-	(13,105)	(13,105)
Discharge Assistance	-	(954)	-	-	(954)
Facility Diversion	-	-	-	(16,386)	(16,386)
CSA Non-mandated	-	(59,484)	-	-	(59,484)
General Family Support	-	-	-	-	-
Mental Health FBG	-	-	-	-	-
Part C - PIPS	-	-	(68,622)	-	(68,622)
Expenses of workshop sales	-	-	(13,738)	-	(13,738)
Bad debts recorded as reduction in revenues	(29,487)	-	-	-	(29,487)
Interest income	1,636	-	-	-	1,636
Loss on disposal of equipment	(12,377)	-	-	-	(12,377)
Total revenues per audit report	<u>\$ 151,754</u>	<u>\$ 3,391,433</u>	<u>\$ 4,560,976</u>	<u>\$ 1,039,461</u>	<u>\$ 9,143,624</u>
Expenses					
Expenses - 4th quarter state report summary dated October 16, 2008	\$ -	\$ 3,363,380	\$ 4,106,570	\$ 1,431,762	\$ 8,901,712
Accruals/adjustments:					
Administrative overhead	11,572	-	(18,315)	1,548	(5,195)
Bad debts recorded as increase in allowance	(33,289)	-	-	-	(33,289)
Expenses of workshop sales	-	-	(13,738)	-	(13,738)
Accrued payroll	140,455	-	-	-	140,455
Compensated absences	58,655	-	-	-	58,655
Accrued liabilities adjustment	(1,632)	-	-	-	(1,632)
Prepaid expenses	2,050	-	-	-	2,050
Reverse vendor payables	11,040	-	-	-	11,040
Reverse capitalized inventory	(7,772)	-	-	-	(7,772)
Depreciation	(7,446)	(6,079)	(11,404)	(5,175)	(30,104)
Total expenses per audit report	<u>\$ 173,633</u>	<u>\$ 3,357,301</u>	<u>\$ 4,063,113</u>	<u>\$ 1,428,135</u>	<u>\$ 9,022,182</u>



**EASTERN SHORE COMMUNITY SERVICES BOARD
RECONCILIATION OF FEDERAL REVENUES PER THE FOURTH QUARTER REPORT
TO THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2008**

	Admin- stration	Mental Health	Mental Retardation	Substance Abuse	Total
Federal revenues					
Federal revenues - 4th quarter state report summary dated October 16, 2008	\$ -	\$ 37,709	\$ -	\$ 443,281	\$ 480,990
Accruals/adjustments:					
Part C	-	-	289,445	-	289,445
Deferred revenues	-	545	-	(19,564)	(19,019)
Other	-	-	-	15	15
Total federal revenues per audit report	<u>\$ -</u>	<u>\$ 38,254</u>	<u>\$ 289,445</u>	<u>\$ 423,732</u>	<u>\$ 751,431</u>



**EASTERN SHORE COMMUNITY SERVICES BOARD
SCHEDULE OF INSURANCE
At June 30, 2008**

Coverage	Company/ Agent/ Policy #	Period	Limits of Liability	Deductible	Premium	
Automobile	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-AU	7/1/07-6/30/08	Automobile Liability Uninsured Motorist ACV - Collision	\$5,000,000 \$1,000,000 None	None None \$ 1,000	\$ 44,361
Crime	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-CR	7/1/07-6/30/08	Employee dishonesty blanket bond Money and securities Depositor's forgery Money orders/Counterfeit currency	\$ 250,000 \$ 250,000 \$ 250,000 \$ 250,000	\$250 \$250 \$250 \$250	735
General Liability	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-GL	7/1/07-6/30/08	Commercial general liability and medical malpractice liability Fire damage Employee benefits liability	\$5,000,000 \$ 100,000	None None \$1,000	19,969
Public Officials Liability	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-PO	7/1/07-6/30/08	Public officials liability	\$5,000,000	\$ 2,500	9,219
Pubic Officials Liability	United States Liability Insurance Co. NDO1053282B	06/24/07-06/24/08	Public officials liability	Statutory	None	1,300
Property	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-PR	7/1/07-6/30/08	Property Extra expense/business income Valuable papers and records Mobile equipment Computer hardware and software	\$5,389,409 \$ 250,000 \$ 250,000 \$ 11,880 \$ 450,000	\$ 1,000 None \$ 1,000 \$ 1,000 \$ 1,000	9,393
Workers Compensation	VACoRP Commercial Risk Consultants, Inc. VA-EA-027A-08-WC	7/1/07-6/30/08	Workers compensation	Statutory	\$1,000,000	59,275
				Total		<u>\$144,252</u>



COMPLIANCE SECTION



**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**

The Board of Directors
Eastern Shore Community Services Board
Nassawadox, Virginia

We have audited the financial statements of Eastern Shore Community Services Board (the "CSB"), as of and for the year ended June 30, 2008 and have issued our report thereon dated December 15, 2008. 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 *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 CSB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CSB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CSB's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the CSB'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 CSB's financial statements that is more than inconsequential will not be prevented or detected by the CSB's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain additional matter that we have reported to CSB management in a separate letter dated December 15, 2008.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Didanick & Knapp, P.C.

December 15, 2008



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

The Board of Directors
Eastern Shore Community Services Board
Nassawadox, Virginia

Compliance

We have audited the compliance of the Eastern Shore Community Services Board (the "CSB") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The CSB's major federal program is identified in the summary of auditors' 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 program is the responsibility of the CSB's management. Our responsibility is to express an opinion on the CSB'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 CSB'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 CSB's compliance with those requirements.

In our opinion, the CSB complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the CSB 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 CSB'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 CSB'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 and use of management, the Board of Directors, 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.

Didlawick & Knopp, P.C.

December 15, 2008



**EASTERN SHORE COMMUNITY SERVICES BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

I. SUMMARY OF THE AUDITORS' RESULTS

- a. The auditors' report expresses an unqualified opinion on the financial statements of Eastern Shore Community Services Board (the "CSB").
- b. No control deficiencies were disclosed during the audit of the financial statements of the CSB.
- c. No instances of noncompliance material to the financial statements of the CSB were disclosed during the audit.
- d. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
- e. The auditors' report on compliance for the major federal award programs for the CSB expresses an unqualified opinion on all major federal programs.
- f. The audit did not disclose any audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- g. The federal award program tested as a major program was the Substance Abuse Prevention and Treatment Block Grant (CFDA #93.959).
- h. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
- i. The CSB was determined to be a low-risk auditee.

II. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENTS AUDIT

None

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

IV. STATUS OF PRIOR YEAR FINDINGS

There were no findings for the year ended June 30, 2007.



**EASTERN SHORE COMMUNITY SERVICES BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Pass-through programs from:			
Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	44501	\$ 423,732
Block Grants for Community Mental Health Services	93.958	44506	<u>38,254</u>
Total U.S. Department of Health and Human Services			<u>461,986</u>
U.S. Department of Education:			
Pass-through program from Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services - Special Education Grants for Infants and Families with Disabilities (Part C)			
	84.181	44507	<u>289,445</u>
Total expenditures of federal awards			<u>\$ 751,431</u>



**EASTERN SHORE COMMUNITY SERVICES BOARD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Eastern Shore Community Services Board and is presented on the accrual basis of accounting.



Didawick & Knopp

Certified Public Accountants PC

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December 15, 2008

Mr. James A. Cannon III, Executive Director
Eastern Shore Community Services Board
Nassawadox, Virginia

We have audited the financial statements of the Eastern Shore Community Services Board (the "CSB"), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. During our audit, we noted the following matter involving the internal control structure and its operation that did not meet the definition of a significant deficiency or a material weakness. The purpose of this letter is to communicate this matter to you for consideration of corrective action in future periods.

Financial Statements

We noted that several adjustments required at the close of the fiscal year were not posted to the CSB's general ledger prior to start of the audit fieldwork. These adjustments included the reversal of a contingency liability and the recording of accrued payroll, accrued leave, deferred revenue, and depreciation expense. We recommend that for future years, the CSB not only calculate the adjustments, but proceed with posting the adjustments to the CSB's general ledger on a timely basis to report the CSB's financial accounts in accordance with generally accepted accounting principles.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Didawick & Knopp, P.C.

pc: Mr. Mark Freeze, Financial Operations Director