
MIDDLE PENINSULA - NORTHERN NECK
COMMUNITY SERVICES BOARD
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ VERONA □ CHRISTIANSBURG



Table of Contents

	<u>Page</u>
Board of Directors and Principal Management Team	i
Organizational Chart	ii
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
 <i>Basic Financial Statements:</i>	
Statement of Net Assets	14
Statement of Revenues, Expenses and Changes in Net Assets.....	15
Statement of Cash Flows	16-17
Notes to Financial Statements.....	18-30
 <i>Required Supplementary Information:</i>	
Schedule of Pension Funding Progress	31
 <i>Supplemental Information:</i>	
<u>Combining Financial Statements:</u>	
Combining Statement of Net Assets	32-33
Combining Statement of Revenues, Expenses and Changes in Net Assets	34-35
Combining Statement of Cash Flows	36-37
 <u>Supporting Schedule:</u>	
Schedule of Insurance	38
 <i>Other Information:</i>	
Client Statistics	39
 <i>Compliance:</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Expenditures of Federal Awards.....	44
Schedule of Findings and Questioned Costs	45
Schedule of Prior Year Findings and Questioned Costs	46

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

At June 30, 2008

Martha Hall, Chairperson

Gary Allen
Sherry Ashe
Harrison Dixon

Terri Hale
David Harmon
Karen Lewis

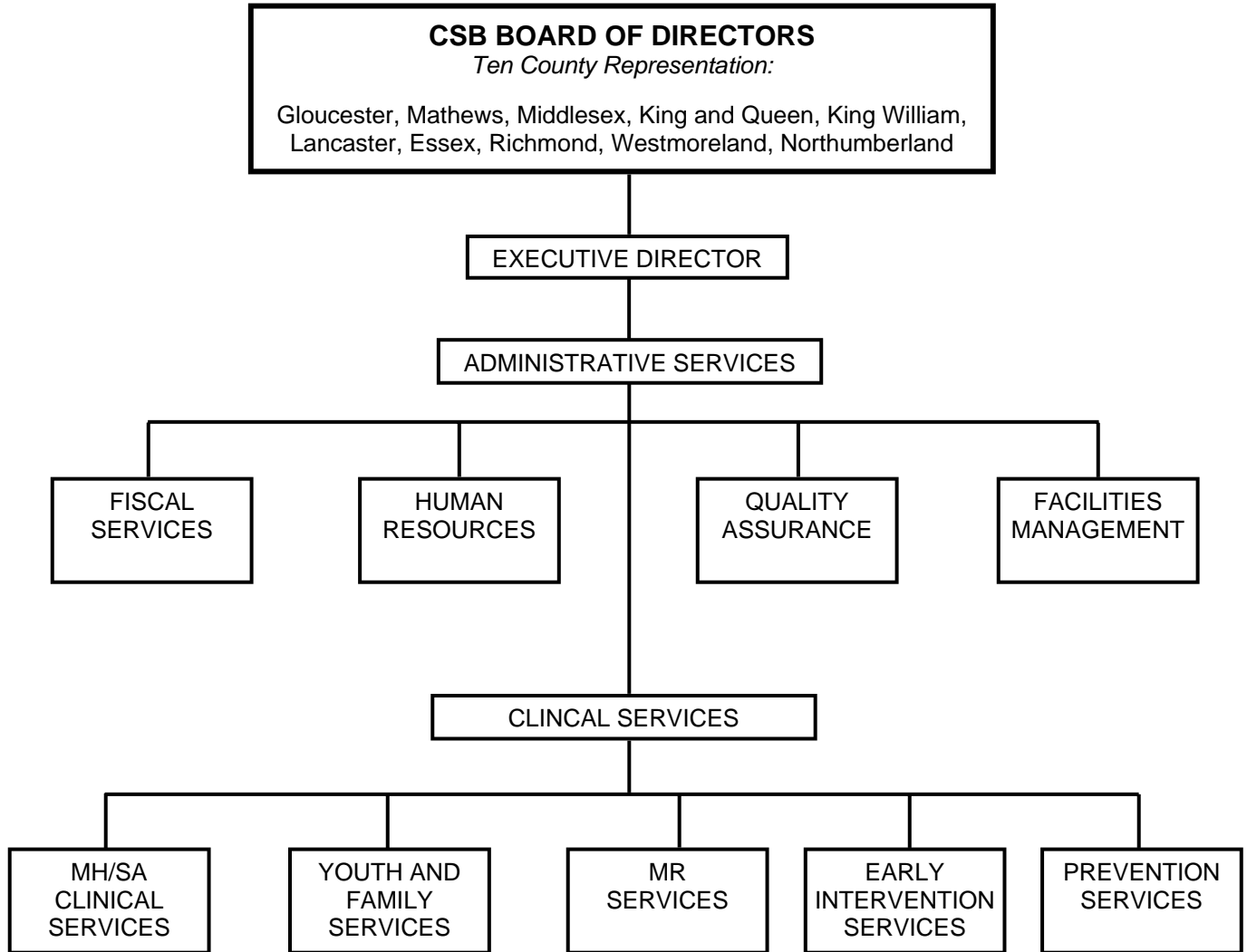
Ben Owen, IV
James Philbrick
Don Phillips

PRINCIPAL MANAGEMENT TEAM

Charles R. Walsh	Executive Director
Yvonne Wingrove	Chief Financial Officer
O'Connell McKeon	Director of Clinical Services
Lynnie McCrobie	Director of Community Options
William F. Wallace	Director of Human Resources
Mitzi Torres	Director of Information Technology
Cindy Brown	Director of Facilities Management
Katherine Phillips	Director of the Rural Infant Services Program
Dr. J. Patrick Dorgan	Director of Youth and Family Services
Cheryl Matteo-Kerney	Director of Prevention Services
Joanne Brown	Director of Quality Assurance

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

ORGANIZATIONAL CHART
FY08



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD
SALUDA, VIRGINIA

We have audited the statement of net assets of Middle Peninsula - Northern Neck Community Services Board and the related statements of revenues, expenses and changes in net assets, and cash flows, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Middle Peninsula - Northern Neck Community Services Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Board's 2007 financial statements, and in our report dated November 28, 2007, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts. 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 Middle Peninsula - Northern Neck Community Services Board, as of June 30, 2008, and the results of its operations 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 October 23, 2008, on our consideration of the Middle Peninsula - Northern Neck Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Pension Funding Progress as listed in the table of contents, are not a required part of the basic financial statements but are 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Middle Peninsula - Northern Neck Community Services Board basic financial statements. The presentation of supplemental information is made for purposes of additional analysis and is not a required part of the basic financial statements of the Board. The supplemental information, including the accompanying schedule of expenditures of federal awards which 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*, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The other information presented has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we express no opinion on it.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
October 23, 2008

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Management's Discussion and Analysis Year Ended June 30, 2008

The following Management's Discussion and Analysis of the Middle Peninsula - Northern Neck Community Services Board's (MPNNCSB) activities and financial performance provides an introduction and overview to the financial statements for fiscal year ended June 30, 2008. The financial statements not only represent the operations of the Board but are blended with Properties, Inc. and two HUD projects, Kilmarnock New Horizons and Lively Turning Point. Properties, Inc. is a property holding organization for the Board. The HUD projects were organized to own and operate facilities for handicapped individuals. All three of these components are not-for-profit organizations exempt under Section 501c(3) of the Internal Revenue Code.

HIGHLIGHTS ON FISCAL YEAR 2008

MPNNCSB's focus in FY 08 included:

1. Further growth in Medicaid services as a result of the downsizing of Eastern State Hospital and facing uncertain inpatient placement was a driving force in program development. The agency realized the urgency to develop community based services to replace institutionalization. Crisis stabilization services increased and the development of geriatric services with contractual relationships being formed with area nursing homes occurred. Two new substance abuse intensive outpatient programs were opened in the clinics in Warsaw and Gloucester, now billable to Medicaid. Medicaid fees increased by 2% from FY 2006 to FY 2007. The largest growth, however; was between FY 2007 and FY 2008 with a 17% increase. The total Medicaid revenue increase from FY 2006 to FY 2008 was 20%. A 3.6% rate increase in Medicaid Waiver rates took place in FY 2008 that contributed to the higher fees along with a 32% increase in Medicaid State Option services revenue from FY 2006 to FY 2008.
2. Continued emphasis to expand opportunities for consumers moved forward in FY 2008 as consumers were employed as peer supervisors, couriers, housekeepers, and clerks for the agency. Of the \$607,651 in restricted regional Transformation funds from the state, \$133,996 were directed to the consumer effort along with a federal block grant of \$36,712.
3. A full year of operation at Discovery House in the Middle Peninsula area was seen in FY 2008 with 6 beds dedicated to transitional mental health and two beds for ambulatory crisis stabilization. MPNNCSB's need for an additional similar facility in the Northern Neck catchment area led to locating a similar house, Discovery II, which will be purchased in FY 2009 in Warsaw. Subsidies were used to assist consumers with rental housing, with consumers holding the lease in their name. State Transformation funds totaling \$64,400 were dedicated to three subsidy programs, Freedom Keys, Recovery Housing and Emergency Housing programs, with \$60,991 restricted for use in purchasing Discovery II in the next fiscal year. The housing crisis for consumers led MPNNCSB to collaborate with other agencies for housing options and innovative financing methods for planning the next fiscal year's housing priorities.
4. The expansion of Youth and Family Services, as part of the vision to increase services to youth, continued with the program locating to a central separate facility in Middlesex County, the restructuring of Youth Case Management to migrate under the direction of the Youth and Family Division July 1, 2008; the development of a day treatment program in the Northern Neck in Colonial Beach schools with plans for additional programs in the ten counties.

HIGHLIGHTS ON FISCAL YEAR 2008 (continued)

5. A major goal of further raising employee salaries and benefits: 12% from FY 2007 to FY 2008 and 11% from FY 2006 to FY 2007. The healthcare subsidy increase was 10% in FY 2007, however; in FY 2008 the increase was less, at 2% but included a reduction in deductions for employee as the agency selected a new insurance carrier, Southern Health.
6. Enhancing the buildings and grounds of MPNNCSB's programs continued with: new signage at Gloucester and Warsaw Counseling Centers and window replacement at the Gloucester site; the completion of architectural plans and start of the build out at Urbanna House, a home for intellectual disabled consumers (formerly called mental retardation); finalization of plans and bid development for the Administration building in Saluda with Administrative staff temporarily moving to another site until renovation and construction of an addition is complete; land clearing at Discovery House and various projects at program sites to include painting, landscaping, interior renovations and new phone systems installed.
7. Under the guidance of the Finance Committee, completing a feasibility study for a clinic in the Northern Neck to replace Warsaw Counseling Center and developing an action plan of all capital projects took place. In addition, work began with VHDA and USDA to explore financing options.
8. Involvement in more community projects and grants was a new direction with the agency having a lead role in the Substance Abuse Addiction and Recovery (SAARA) annual fund raising walk, the participation in the Peace Frogs bank to bank swim with the agency's early intervention program, RISP (Rural Infant Services Program) being awarded \$5,992 and two grants from the Williamsburg Community Health Foundation-\$2,500 for the agency leadership team to develop a strategic plan and \$39,275 for RISP.
9. MPNNCSB moved towards a more mobile service delivery system with the support of available technology. The agency added 50 laptops making for over 100 total in the agency. The use of air cards, increase in cellular phones, teleconferencing and webinars were all part of an effort to save time and cost in meeting and workshops travel and time. In addition, this year ended a two year RFP process to acquire a new electronic medical record software system and new financial software as well.
10. Fees were as follows: 2008-\$11,038,250; 2007-\$9,930,151; 2006-\$9,482,923. There was a fee increase of 5% from 2006 to 2007 and an 11% increase from 2007 to 2008.
11. Expenses rose by 11% from FY 2007 to FY 2008 compared to the same 11% increase from FY 2006 to FY 2007. Salary and benefits contributed to the major increase of 12%.
12. Revenues from the Commonwealth of Virginia rose \$215,018 or 7% in FY 2008 with \$3,349,541 in state funds compared to \$3,134,523 in FY 2007. The Board continued to act as a fiscal agent for the department with Mental Retardation One Time Waiver and OBRA one time grants to localities which impacted this increase. This is compared to a \$696,536 increase in state funds from 2006 to 2007, or 29% due mainly to new Transformation funds. A 1% increase of \$7,762 was realized in federal government funds from 2007 to 2008. There was a 4% increase or \$43,545 realized from FY 2006 to 2007 in federal funds. Local funds increased by 6% from FY 2007 to FY 2008 while the increase from FY 2006 to FY 2007 was at 10% (\$418,775 in FY 2008 and \$396,647 in FY 2007).

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

The change in net assets as of June 30, 2008 was \$684,139 as compared to the changes in net assets as of June 30, 2007 of \$858,356 and \$807,684 in 2006.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 11,038,250	\$ 9,930,151	\$ 9,482,923
Operating expenses	15,755,976	14,200,109	12,845,732
Operating income (loss)	<u>\$ (4,717,726)</u>	<u>\$ (4,269,958)</u>	<u>\$ (3,362,809)</u>
Net Nonoperating income	<u>\$ 5,401,865</u>	<u>\$ 5,128,314</u>	<u>\$ 4,170,493</u>
Change in net assets	<u><u>\$ 684,139</u></u>	<u><u>\$ 858,356</u></u>	<u><u>\$ 807,684</u></u>

FINANCIAL POSITION SUMMARY

Net assets may serve over time as a useful indicator of MPNNCSB's financial position. MPNNCSB's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2008. This information is reflected on the Statement of Net Assets. The excess of assets over liabilities is the net assets. MPNNCSB's net assets exceeded liabilities by \$6.3M. In FY 2007, it was \$5.7M and in 2006, \$4.9M. The 11% increase in operating revenues over prior year was a contributor.

A condensed summary of the CSB's balance sheets at June 30, 2008, 2007 and 2006 are shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current assets	\$ 6,051,202	\$ 4,944,570	\$ 3,716,559
Restricted current assets	62,539	64,187	73,099
Capital assets (net of depreciation)	<u>3,280,021</u>	<u>3,357,003</u>	<u>3,448,386</u>
Total assets	<u><u>\$ 9,393,762</u></u>	<u><u>\$ 8,365,760</u></u>	<u><u>\$ 7,238,044</u></u>
Liabilities			
Current liabilities	\$ 2,067,182	\$ 1,651,086	\$ 1,245,781
Current liabilities payable from restricted assets	36,444	35,330	48,388
Long-term liabilities	<u>892,278</u>	<u>965,625</u>	<u>1,088,512</u>
Total liabilities	<u><u>\$ 2,995,904</u></u>	<u><u>\$ 2,652,041</u></u>	<u><u>\$ 2,382,681</u></u>
Net Assets	<u><u>\$ 6,397,858</u></u>	<u><u>\$ 5,713,719</u></u>	<u><u>\$ 4,855,363</u></u>

CASH FLOWS

The flow of cash resources into and out of MPNNCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects net increases or decreases in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2008.

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows provided (used) by operating activities	\$ (3,924,617)	\$ (3,760,349)	\$ (3,058,608)
Cash flows provided (used) by non-capital and related financing activities	5,420,849	5,023,880	4,577,388
Cash flows provided (used) by capital and related financing activities	(474,621)	(357,615)	(665,350)
Cash flows provided (used) by investing activities	124,351	128,289	68,087
Net cash increase (decrease)	<u>\$ 1,145,962</u>	<u>\$ 1,034,205</u>	<u>\$ 921,517</u>

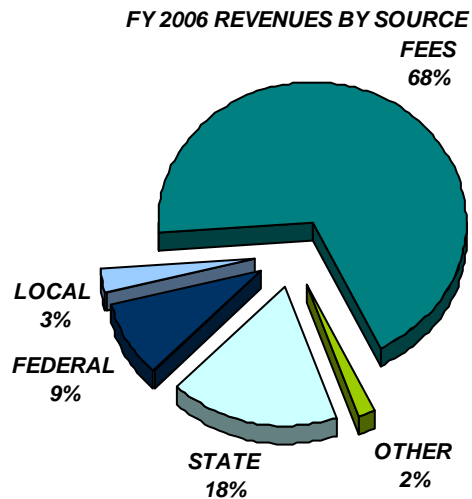
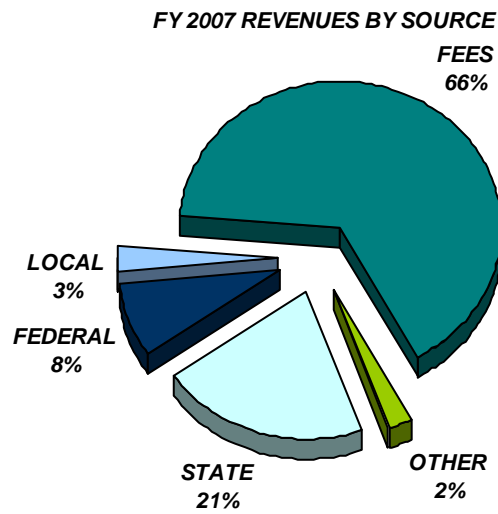
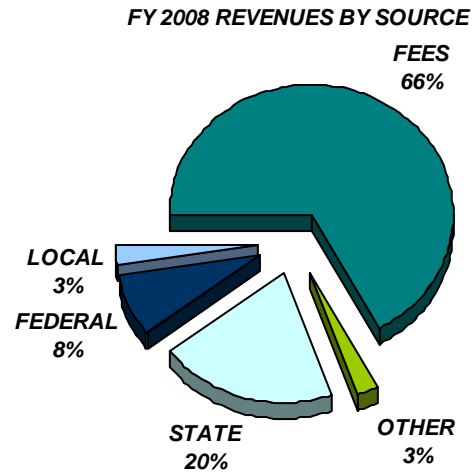
Cash Flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Assets to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions).

Cash Flows from Non-Capital and Related Financing Activities consists of income received primarily as government grants.

Cash Flows from Capital and Related Financing Activities represents income from acquisition of fixed assets, interest payment on long term debt, principal payments on mortgages and loans payable.

REVENUES

The following charts show the major sources and the percentages of operating revenues for the years ended June 30, 2008, 2007, and 2006:



REVENUES (continued)

A summary of revenues for the years ended June 30, 2008, 2007 and 2006 and the amount and percentage change of 2008 in relation to 2007 and 2007 in relation to 2006 are as follows:

Major Revenue Category Comparison Fiscal Years 2008, 2007, and 2006

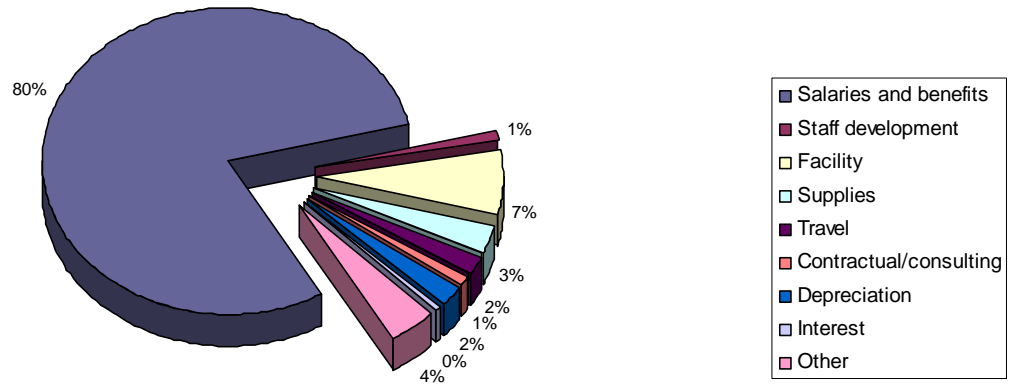
Revenue	2008	Percent of Total	2007	Percent of Total	Increase/Decrease from 2007	Percent Increase/Decrease from 2007
State	\$ 3,349,541	20.29%	\$ 3,134,523	20.76%	\$ 215,018	6.86%
Federal	1,280,641	7.76%	1,272,879	8.43%	7,762	0.61%
Local	418,775	2.54%	396,647	2.63%	22,128	5.58%
Fees	11,038,250	66.88%	9,930,151	65.77%	1,108,099	11.16%
Other	417,136	2.53%	364,055	2.41%	53,081	14.58%
Total	\$ 16,504,343	100.00%	\$ 15,098,255	100.00%	\$ 1,406,088	9.31%

Revenue	2007	Percent of Total	2006	Percent of Total	Increase/Decrease from 2006	Percent Increase/Decrease from 2006
State	\$ 3,134,523	20.76%	\$ 2,437,987	17.77%	\$ 696,536	28.57%
Federal	1,272,879	8.43%	1,229,334	8.96%	43,545	3.54%
Local	396,647	2.63%	359,451	2.62%	37,196	10.35%
Fees	9,930,151	65.77%	9,482,923	69.11%	447,228	4.72%
Other	364,055	2.40%	212,062	1.55%	151,993	71.67%
Total	\$ 15,098,255	99.99%	\$ 13,721,757	100.01%	\$ 1,376,498	10.03%

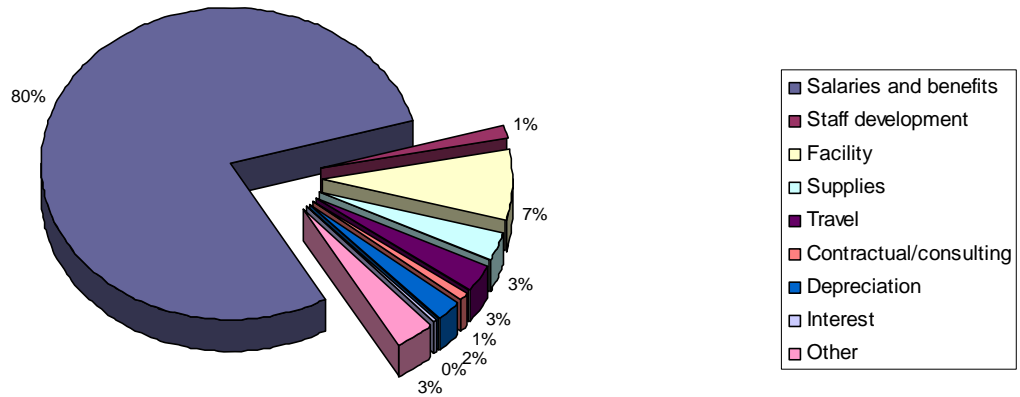
EXPENSES

The following charts show the expense categories and percentage of operating expenses for the years ended June 30, 2008, 2007 and 2006:

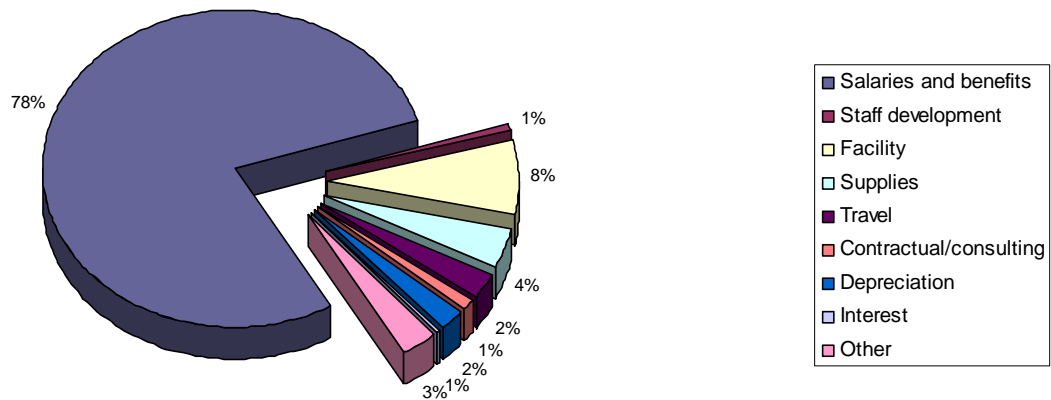
FY 2008 EXPENSES



FY 2007 EXPENSES



FY 2006 EXPENSES



EXPENSES (continued)

A summary of expenses for the years ended June 30, 2008, 2007 and 2006 and the amount and percentage change in 2008 in relation to 2007 and percentage change in 2007 in relation to 2006 are as follows:

Expenses	2008	Percent of Total	2007	Percent of Total	Increase/ Decrease from 2007	Percent Increase/ Decrease
Salaries and benefits	\$ 12,569,957	79.43%	\$ 11,241,987	78.94%	\$ 1,327,970	11.81%
Staff development	178,993	1.13%	170,452	1.20%	8,541	5.01%
Facility	1,044,995	6.61%	1,030,446	7.24%	14,549	1.41%
Supplies	470,107	2.97%	445,096	3.13%	25,011	5.62%
Travel	309,915	1.96%	395,167	2.78%	(85,252)	-21.57%
Contractual/consulting	152,880	0.97%	131,154	0.92%	21,726	16.57%
Depreciation	366,943	2.32%	313,700	2.20%	53,243	16.97%
Interest	64,228	0.41%	39,790	0.28%	24,438	61.42%
Other	662,636	4.19%	472,107	3.32%	190,529	40.36%
Total	\$ 15,820,654	99.99%	\$ 14,239,899	100.01%	\$ 1,580,755	11.10%

Expenses	2007	Percent of Total	2006	Percent of Total	Increase/ Decrease from 2006	Percent Increase/ Decrease
Salaries and benefits	\$ 11,241,987	78.94%	\$ 10,100,020	78.21%	\$ 1,141,967	11.31%
Staff development	170,452	1.20%	138,296	1.07%	32,156	23.25%
Facility	1,030,446	7.24%	969,671	7.51%	60,775	6.27%
Supplies	445,096	3.13%	522,021	4.04%	(76,925)	-14.74%
Travel	395,167	2.78%	316,371	2.45%	78,796	24.91%
Contractual/consulting	131,154	0.92%	139,135	1.08%	(7,981)	-5.74%
Depreciation	313,700	2.20%	281,155	2.18%	32,545	11.58%
Interest	39,790	0.28%	68,341	0.53%	(28,551)	-41.78%
Other	472,107	3.32%	379,063	2.94%	93,044	24.55%
Total	\$ 14,239,899	100.01%	\$ 12,914,073	100.01%	\$ 1,325,826	10.27%

Debt Administration:

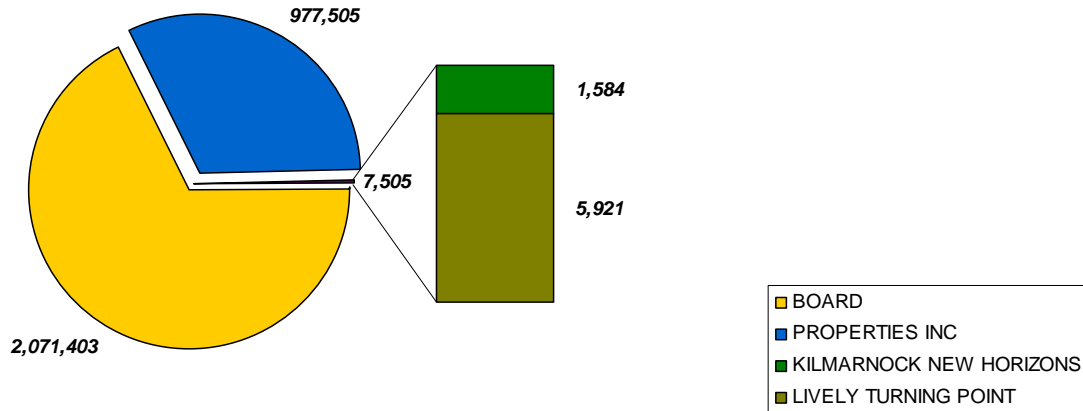
The component units of the organization contribute in varying degrees to the current and long term debt. The increase from FY 2007 to FY 2008 was in compensated absences, payroll accrual and deferred revenue. Note-deferred revenue: grants to localities of \$761,908 [unexpended state grant funds] of the Department of Mental Health, Mental Retardation and Substance Abuse Services.

In FY 09, MPNNCSB plans to refinance the mortgages in Properties, Inc. utilizing the financing opportunities of the Virginia Housing Development Authority. Properties, Inc. will be collaborating with this agency for lower interest rates and financing options for existing housing, office space and renovation projects in FY 2009. In addition, historical tax credits are being explored in order to proceed with a larger renovation project of a large office building in West Point.

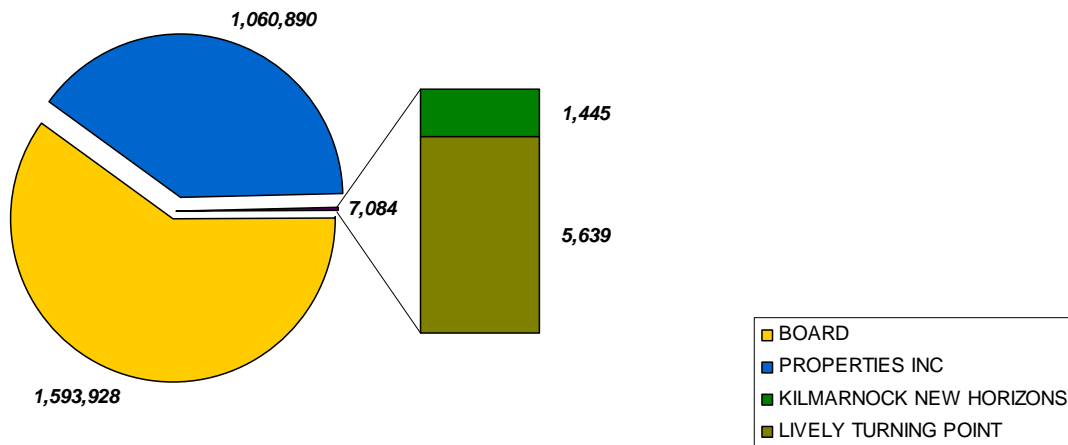
Total Liabilities	FY 2008	Percent Increase/ Decrease	FY 2007	Percent Increase/ Decrease	FY 2006
Board	\$ 2,071,403	30%	\$ 1,593,928	32%	\$ 1,207,264
Properties, Inc.	977,505	-8%	1,060,890	-10%	1,172,880
Kilmarnock New Horizons	1,584	10%	1,445	17%	1,234
Lively Turning Point	5,921	5%	5,639	333%	1,303
Total	\$ 3,056,413	15%	\$ 2,661,902	12%	\$ 2,382,681

Debt Administration: (continued)

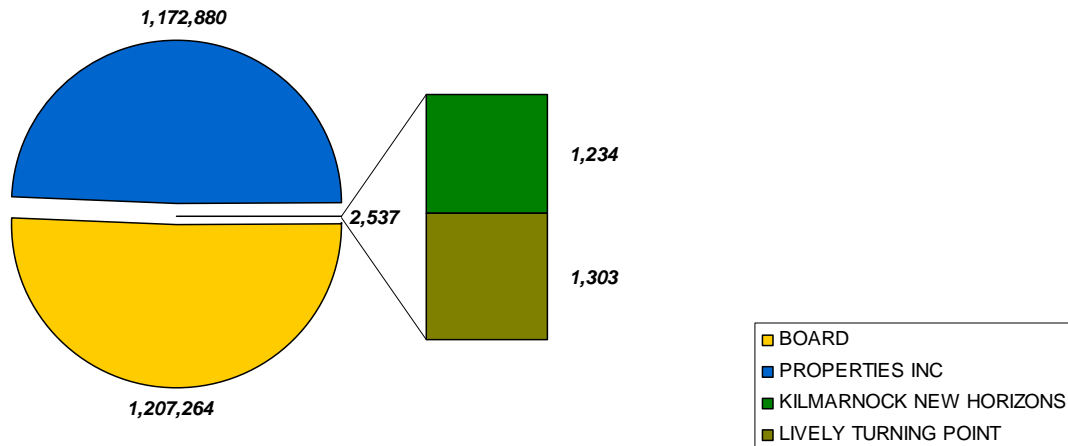
TOTAL LIABILITIES FY 2008



TOTAL LIABILITIES FY 2007



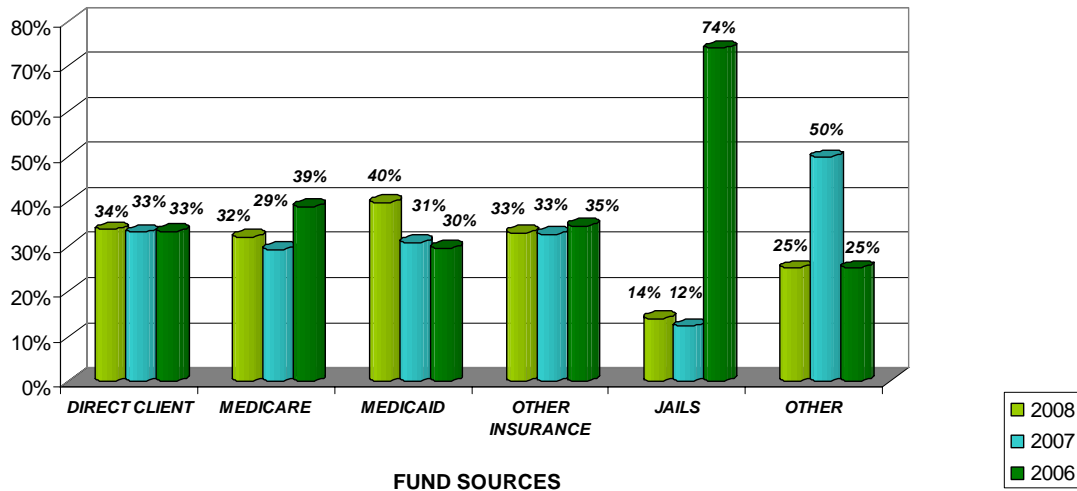
TOTAL LIABILITIES FY 2006



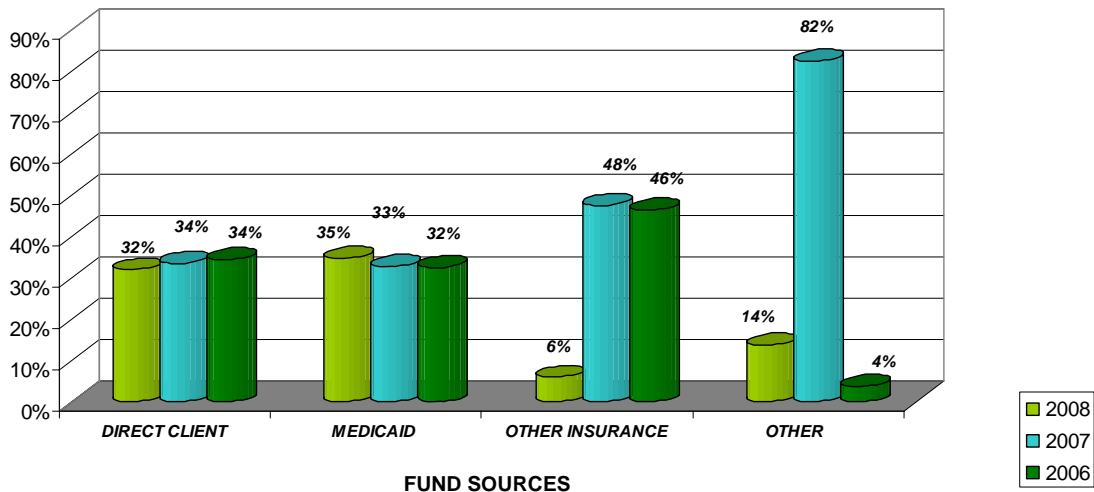
Fees:

The following graphs show the percent change by fund source within the mental health, mental retardation and substance abuse divisions over fiscal years ending 2008, 2007, and 2006:

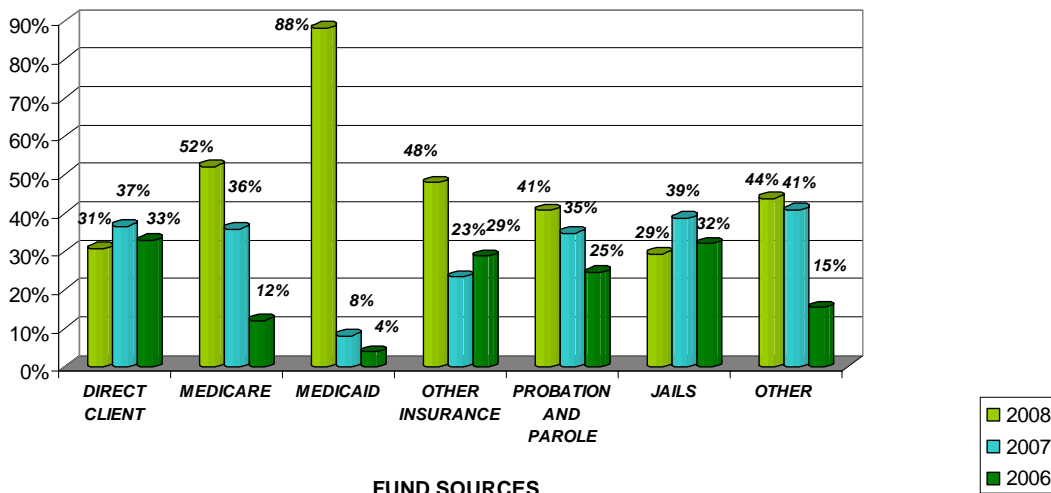
MENTAL HEALTH FEE PERCENT CHANGE BY FUND SOURCE FY 2008, 2007, 2006



INTELLECTUAL DISABILITIES FEE PERCENT CHANGE BY FUND SOURCE FY 2008, 2007, 2008



SUBSTANCE ABUSE FEE PERCENT CHANGE BY FUND SOURCE FY 2008, 2007, 2008



- Basic Financial Statements -

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Net Assets
At June 30, 2008
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,578,642	\$ 3,435,527
Accounts receivable, less allowance for uncollectibles	1,223,813	1,272,399
Accrued revenue	79,670	74,088
Prepaid items	169,077	162,556
Total current assets	<u>\$ 6,051,202</u>	<u>\$ 4,944,570</u>
Restricted Current Assets:		
Cash and cash equivalents	\$ 26,095	\$ 28,857
Client funds	36,444	35,330
Total restricted current assets	<u>\$ 62,539</u>	<u>\$ 64,187</u>
Capital Assets:		
Property and equipment, less accumulated depreciation	\$ 3,280,021	\$ 3,357,003
Total assets	<u>\$ 9,393,762</u>	<u>\$ 8,365,760</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 170,569	\$ 171,168
Deposits and other	39,719	29,162
Compensated absences	832,002	672,913
Deferred revenue	941,037	684,965
Long-term debt, current portion	83,855	92,878
Total current liabilities	<u>\$ 2,067,182</u>	<u>\$ 1,651,086</u>
Current Liabilities Payable from Restricted Assets:		
Client funds	36,444	35,330
Long-term Liabilities:		
Long-term debt, less current portion	892,278	965,625
Total liabilities	<u>\$ 2,995,904</u>	<u>\$ 2,652,041</u>
Net Assets:		
Invested in capital assets net of related debt	\$ 2,303,888	\$ 2,298,500
Restricted	26,095	28,857
Unrestricted	4,067,875	3,386,362
Total net assets	<u>\$ 6,397,858</u>	<u>\$ 5,713,719</u>

The accompanying notes to financial statements are an integral part of this statement.

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Assets
 Year Ended June 30, 2008
 (With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Net patient service revenue	\$ 11,038,250	\$ 9,930,151
Operating Expenses:		
Salaries and benefits	\$ 12,569,957	\$ 11,241,987
Staff development	178,993	170,452
Facility	1,044,995	1,030,446
Supplies	470,107	445,096
Travel	309,915	395,167
Contractual and consulting	152,880	131,154
Depreciation and amortization	366,493	313,700
Other	662,636	472,107
Total operating expenses	\$ 15,755,976	\$ 14,200,109
Operating income (loss)	\$ (4,717,726)	\$ (4,269,958)
Nonoperating income:		
Appropriations:		
Commonwealth of Virginia	\$ 3,349,541	\$ 3,134,523
Federal government	1,280,641	1,272,879
Local governments	418,775	396,647
Contributions	41,355	40,272
Other	251,430	195,494
Interest income	124,351	128,289
Interest expense	(64,228)	(39,790)
Net nonoperating income	\$ 5,401,865	\$ 5,128,314
Change in net assets	\$ 684,139	\$ 858,356
Net assets, beginning of year	5,713,719	4,855,363
Net assets, end of year	\$ 6,397,858	\$ 5,713,719

The accompanying notes to financial statements are an integral part of this statement.

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 11,086,836	\$ 9,647,604
Payments to suppliers	(2,620,329)	(2,328,100)
Payments to and for employees	(12,391,124)	(11,079,853)
	\$ (3,924,617)	\$ (3,760,349)
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 5,054,910	\$ 4,886,315
Other	365,939	137,565
	\$ 5,420,849	\$ 5,023,880
Cash flows provided (used) by capital and related financing activities:		
Acquisition of fixed assets	\$ (327,008)	\$ (205,836)
Interest payment on long-term debt	(65,243)	(40,012)
Principal payments on mortgages and loans payable	(82,370)	(111,767)
	\$ (474,621)	\$ (357,615)
Cash flows provided (used) by investing activities:		
Interest income	\$ 124,351	\$ 128,289
Net increase (decrease) in cash and cash equivalents	\$ 1,145,962	\$ 1,034,205
Cash and cash equivalents, beginning of year	3,458,775	2,430,179
Cash and cash equivalents, end of year	\$ 4,604,737	\$ 3,464,384
Summary of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 4,578,642	\$ 3,435,527
Cash and cash equivalents - restricted	26,095	28,857
Total	\$ 4,604,737	\$ 3,464,384

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows

Year Ended June 30, 2008 (Continued)

(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash flows provided (used) by operating activities:		
Operating income (loss)	\$ (4,717,726)	\$ (4,269,958)
Adjustments to reconcile excess of revenues over expenses to cash provided (used) by operations:		
Depreciation and amortization	366,493	313,700
Loss on disposition of capital assets	37,980	-
Changes in assets and liabilities:		
Accounts receivable	(43,004)	(204,020)
Prepaid expenses	6,521	(4,327)
Accounts payable and accrued expenses	(599)	99,640
Deposits	10,557	6,386
Compensated absences	159,089	99,301
Deferred revenue	256,072	198,929
Cash flows provided (used) by operating activities	<u>\$ (3,924,617)</u>	<u>\$ (3,760,349)</u>

The accompanying notes to financial statements are an integral part of this statement.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Agency:

The Board operates as an agent for the Counties of Essex, Gloucester, King and Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, and Westmoreland 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 and mental retardation and substance abuse services which relate to and are integrated with existing and planned programs.

B. Reporting Entity:

For financial reporting purposes, in conformance with the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations which exclusively benefit the Board. All component units included in these financial statements have years which end on June 30.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Board's operations, and so data from these units are combined with data of the Board. The Board has the following blended component units.

Properties, Inc. is a property holding organization for the Board and is exempt from taxation under the Federal Internal Revenue Code Section 501(c)(2).

Kilmarnock New Horizons and Lively Turning Point have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code, and were organized to own and operate facilities for handicapped individuals.

C. Basis of Accounting:

The Board is funded by federal, state and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when due.

D. Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. Financial Statement Presentation: (continued)

All significant intercompany transactions and accounts have been eliminated for the combining statements.

E. Enterprise Fund Accounting:

Middle Peninsula - Northern Neck Community Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

F. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash and Cash Equivalents:

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the *Code of Virginia*. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

H. Investments:

Investments are reported at fair value.

I. Net Client Service Revenue:

Net client service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

J. 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 is 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, they are not reported as revenue.

The vast majority of fees collected result from Medicaid billings.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

K. Capital Assets:

Capital assets acquired are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 30 years and is computed using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift. All capital asset purchases of \$5,000 or more are capitalized.

L. Restricted Assets:

The Board segregates monies held on behalf of third parties and other organizations. Client funds are held in escrow for various participants in Board programs. These funds consist of client bank accounts and cash not recorded in the Board's name.

M. 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.

N. Budgetary Accounting:

The Board follows these procedures in establishing its budgets.

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.
2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and fourth quarters. The final quarterly report is due by September 30 following the end of the fiscal year, unless extended.
3. If any changes are made during the fiscal year in state or federal block grants or local match funds, the Board submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

O. Operating and Nonoperating Revenues and Expenses:

Operating revenues and expenses are defined as those items which result from providing services, and include all transactions and events which are not capital and related financing, noncapital or investing activities. Nonoperating revenues consist of grants, investment and other income. Nonoperating expenses are defined as capital and noncapital related financing and other expenses.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements As of June 30, 2008 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

P. Comparative Totals:

Comparative totals are presented for information purposes only. Certain prior year amounts have been reclassified to conform with the current year presentation.

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 (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments. The carrying value of deposits in banks for the reporting entity was (\$173,740) and the bank balances were \$818,764.

Restricted Cash:

Restricted cash represents funds held for related organizations. Client escrow funds are not held in the name of the Board.

Investments:

State 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).

Custodial Credit Risk (Investments):

To protect the Board against potential fraud, the Board requires the investment assets of the Board to be secured through third-party custody and safekeeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery versus payment procedure.

At June 30, 2008 the Board had investments in a single financial institution collateral pool as a part of a cash management arrangement with a bank. The investments in the pool are registered in the name of the pool and consist of FDIC insured certificates of deposit and U.S. government backed securities. The Board's investments in the collateral pool at June 30, 2008 were \$4,469,603 or 10.3% of the pool's total value of \$44,553,855. None of the collateral pool was uninsured or uncollateralized at June 30, 2008.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2008 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Rated Debt Investments Value	Rated Debt Investments				
	Fair Quality Ratings				
	AAA/AAAm	AA	A	A1	Unrated
Virginia Local Government					
Investment Pool	\$ 270,481	\$ -	\$ -	\$ -	\$ -
U.S. Savings Bonds	-	-	-	-	35,028
Chesapeake Bank					
Collateral Pool	-	-	-	-	4,469,603
Total	\$ 270,481	\$ -	\$ -	\$ -	\$ 4,504,631

Concentration of Credit Risk:

At June 30, 2008 the Board did not have an investment policy regarding the concentration of credit risk.

The Board had investments at June 30, 2008 with more than 93% of the total investments in the Chesapeake Bank Collateral Pool.

Interest Rate Risk:

The Board's investment policy does not address interest rate risk. The following details the Board's interest rate risk at June 30, 2008.

Investment Type	Fair Value	Less Than			
		One Year	1-5 Years	6-10 Years	10 Years +
Virginia Local Government					
Investment Pool	\$ 270,481	\$ 270,481	\$ -	\$ -	\$ -
U.S. Savings Bonds	35,028	35,028	-	-	-
Chesapeake Bank					
Collateral Pool	4,469,603	4,469,603	-	-	-
Total	\$ 4,775,112	\$ 4,775,112	\$ -	\$ -	\$ -

The fair value of the external investment pools is the same as the value of the pool shares. Investments in the Local Government Investment Pool that are not SEC registered are monitored by the Treasurer of Virginia and other applicable state agencies. Investments in other external investment pools are all SEC registered or federal securities.

There were no involuntary participations in external investment pools. The Board does not sponsor any external investment pools.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Summary of Cash and Cash Equivalents:

	<u>2008</u>	<u>2007</u>
Cash:		
Petty cash	\$ 3,365	\$ 3,315
Checking	(173,740)	(267,299)
Total cash	<u>\$ (170,375)</u>	<u>\$ (263,984)</u>
Investments	4,775,112	3,728,368
Total cash and cash equivalents	<u><u>\$ 4,604,737</u></u>	<u><u>\$ 3,464,384</u></u>
Allocation:		
Unrestricted	\$ 4,578,642	\$ 3,435,527
Restricted	26,095	28,857
Total allocation	<u><u>\$ 4,604,737</u></u>	<u><u>\$ 3,464,384</u></u>

NOTE 3 - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE:

Client Accounts Receivable:

At June 30, 2008 and 2007 the Board had client accounts receivable due, net of estimated uncollectibles of \$643,598 (2008) and \$552,177 (2007) from the following primary sources:

	<u>2008</u>	<u>2007</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 900,095	\$ 1,080,394
Direct client and third party	205,174	160,452
Other	118,544	31,553
Total	<u><u>\$ 1,223,813</u></u>	<u><u>\$ 1,272,399</u></u>

Other than the amounts due for Medicaid charges, there are no other individually significant sources of client fee receivables.

Accrued Revenue:

	<u>2008</u>	<u>2007</u>
Commonwealth of Virginia - grants	\$ 36,873	\$ 17,171
Federal	23,957	23,284
Others	18,840	33,633
Total	<u><u>\$ 79,670</u></u>	<u><u>\$ 74,088</u></u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 4 - CAPITAL ASSETS:

Capital assets consist of the following:

Middle Peninsula-Northern Neck Community Services Board	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Vehicles	\$ 1,482,477	\$ 323,628	\$ 49,850	\$ 1,756,255
Less: Accumulated depreciation	\$ 731,840	\$ 263,412	\$ 11,870	\$ 983,382
Net capital assets being depreciated	\$ 750,637	\$ 60,216	\$ 37,980	\$ 772,873
Net capital assets	\$ 750,637	\$ 60,216	\$ 37,980	\$ 772,873
Properties, Inc. Component Unit Organization	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 476,123	\$ -	\$ -	\$ 476,123
Capital assets being depreciated:				
Building and improvements	\$ 1,874,665	\$ 3,380	\$ -	\$ 1,878,045
Furnishings and equipment	82,713	-	-	82,713
Vehicles	377,795	-	377,795	-
Total capital assets being depreciated	\$ 2,335,173	\$ 3,380	\$ 377,795	\$ 1,960,758
Less: Accumulated depreciation	929,264	74,288	377,795	625,757
Net capital assets being depreciated	\$ 1,405,909	\$ (70,908)	\$ -	\$ 1,335,001
Net capital assets	\$ 1,882,032	\$ (70,908)	\$ -	\$ 1,811,124
Other Component Unit Organizations	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 53,042	\$ -	\$ -	\$ 53,042
Capital assets being depreciated:				
Building and improvements	\$ 845,120	\$ -	\$ -	\$ 845,120
Furnishings, equipment and other	4,157	-	-	4,157
Total capital assets being depreciated	\$ 849,277	\$ -	\$ -	\$ 849,277
Less: Accumulated depreciation	177,985	28,310	-	206,295
Net capital assets being depreciated	\$ 671,292	\$ (28,310)	\$ -	\$ 642,982
Net capital assets	\$ 724,334	\$ (28,310)	\$ -	\$ 696,024
Total reporting entity capital assets	\$ 3,357,003	\$ (39,002)	\$ 37,980	\$ 3,280,021
Reconciliation to statement of revenues, expenses and changes in net assets:				
Depreciation		\$ 366,010		
Amortization		483		
Total depreciation and amortization expense		<u>\$ 366,493</u>		

Total depreciation expense was \$366,010 for 2008 and \$313,245 for 2007.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements As of June 30, 2008 (continued)

NOTE 5 - LEASE COMMITMENTS:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to five years. All leases are subject to availability of funds and are cancelable within 60 days.

Total rent expenses for the year ended June 30, 2008, exclusive of intercompany payments of \$232,325, totaled \$361,191. Rent expenses (net) for 2007 totaled \$346,489.

NOTE 6 - CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:

In accordance with the Governmental Accounting Standards Board Statement 16, *Accounting for Compensated Absences*, the Board has accrued the liability arising from compensated absences.

Board employees earn leave based on length of service. The Board has outstanding accrued leave pay totaling \$832,002 at June 30, 2008 and \$672,913 at June 30, 2007. Employees are paid their accumulated annual leave up to certain limits. Accrued leave has been reported as a current liability since there is no determination of the amounts which would be used after one year upon termination of employment.

NOTE 7 - DEFINED BENEFIT PENSION PLAN:

A. Plan Description:

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

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 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 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 (1.85% to sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). 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 their website at <http://www.varetire.org/Pdf/publications/2007/AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 7 - DEFINED BENEFIT PENSION PLAN: (continued)

B. 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. This 5% member contribution has been assumed by the employer. 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 of Virginia and approved by the VRS Board of Trustees. The Board's contribution rate for the fiscal years ended 2008 and 2007 was 2.82% and for fiscal year ended 2006 was 100% of the annual covered payroll.

C. Annual Pension Cost:

For fiscal 2008, the Board's annual pension cost of \$229,062 (does not include the employee share assumed by the Board which was \$406,138) was equal to the Board's required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 229,062	100%	\$ -
June 30, 2007	206,653	100%	-
June 30, 2006	66,878	100%	-

(1) Employer portion only

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.50% to 4.75% , 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.

D. Funded Status and Funding Progress:

As of June 30, 2007, the most recent actuarial valuation date, the plan was 108.79% funded. The actuarial accrued liability for benefits was \$12,537,259, and the actuarial value of assets was \$13,638,667, resulting in an unfunded actuarial accrued liability (UAAL) of (\$1,101,408). The covered payroll (annual payroll of active employees covered by the plan) was \$7,588,342, and ratio of the UAAL to the covered payroll was -14.51%.

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.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 8 - DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis, such amounts are measurable, but not available. Deferred revenue is comprised of the following:

<u>Deferred Revenue</u>	<u>2008</u>	<u>2007</u>
Deferred revenue representing insurance proceeds received but not expended	\$ -	\$ 28,333
Unexpended state grant funds	834,516	646,212
Unexpended Restricted Contributions	15,163	10,311
Other	91,358	109
Total	<u>\$ 941,037</u>	<u>\$ 684,965</u>

NOTE 9 - RISK MANAGEMENT:

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and director and officer’s liability coverage which have \$2,000,000 coverage limits. Other insurance coverage for property, workers compensation, crime, dishonesty and related coverage are purchased from a commercial insurance carrier. Coverage for these items varies from stated property values to \$2,000,000. There are no surety bonds for directors. There have been no settlements in excess of insurance coverages for the past three years. The primary risks of loss are generally confined to co-insurance and deductible amounts.

NOTE 10 - LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

	<u>Mortgages and Loans Payable</u>
Balance at July 1, 2007	\$ 1,058,503
Add: Issuances/additions	-
Deduct: Retirements	(82,370)
Balance at June 30, 2008	<u>\$ 976,133</u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 10 - LONG-TERM OBLIGATIONS: (continued)

Mortgages payable:

Properties, Inc. has mortgages payable incurred to purchase residential treatment sites. Details of the mortgages are:

	<u>Balance</u>	<u>Current Portion</u>
Chesapeake National Bank, payable in monthly installments of \$1,039, plus interest at variable rates through April, 2021, secured by a Deed of Trust on property located in Gloucester, Virginia	\$ 97,250	\$ 4,374
Chesapeake National Bank, payable in monthly installments of \$1,152, including interest at variable rates through June 2013, secured by a Deed of Trust on property located in Warsaw, Virginia	61,808	11,277
Chesapeake National Bank, payable in monthly installments of \$833, including interest at variable rates through April 2014, secured by a Deed of Trust on property located in Mathews, Virginia	51,544	7,955
Chesapeake National Bank, payable in monthly installments of \$921, including interest at variable rates through September 2013, secured by a Deed of Trust on property located in Tappahannock, Virginia	51,908	9,017
Chesapeake National Bank, payable in monthly installments of \$661, including interest at variable rates through September 2013, secured by a Deed of Trust on property located in Middlesex County, Virginia	37,271	6,474
Chesapeake National Bank, payable in 180 monthly installments of \$1,143, including interest at variable rates through November 2013, secured by a Deed of Trust on property located in Urbanna, Virginia	65,412	10,847
Chesapeake Bank, original amount of \$720,000, payable in monthly payments of \$6,673, interest at 7.75%, secured by property located in Gloucester County, Virginia, matures January 26, 2020.	610,940	33,911
Total mortgages payable	<u>\$ 976,133</u>	<u>\$ 83,855</u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 10 - LONG-TERM OBLIGATIONS: (continued)

Annual requirements to amortize long-term debts at current interest rates are as follows:

Year Ending June 30,	Principal	Interest
2009	\$ 83,855	\$ 65,210
2010	89,026	60,039
2011	94,543	54,521
2012	100,432	48,633
2013	106,718	42,647
2014-2018	351,299	130,206
2019-2021	150,260	11,860
Total	<u>\$ 976,133</u>	<u>\$ 413,116</u>

The Board has no federal arbitrage liability.

NOTE 11 - PARTICIPANT LOCALITY CONTRIBUTIONS:

The participating localities (counties) appropriated the following amounts to the Board:

	2008	2007
Essex	\$ 31,301	\$ 30,098
Gloucester	109,091	104,896
King and Queen	21,074	20,264
King William	46,980	46,980
Lancaster	35,330	30,900
Mathews	28,822	27,714
Middlesex	30,682	29,502
Northumberland	39,359	37,846
Richmond	25,000	22,004
Westmoreland	51,136	46,443
Total	<u>\$ 418,775</u>	<u>\$ 396,647</u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2008 (continued)

NOTE 12 - NET PATIENT REVENUE SOURCES:

Net patient revenues were from the following sources:

	<u>2008</u>	<u>2007</u>
Medicaid	\$ 9,701,519	\$ 8,743,251
Direct client and third party	960,776	916,012
Other	375,955	270,888
Total	<u>\$ 11,038,250</u>	<u>\$ 9,930,151</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

The Board participates in federal assistance programs which are subject to audit by the grantor agencies. The Board believes that it is in compliance with applicable grant requirements, and any disallowances of costs by grantor agencies would not be significant.

Proposed changes to Medicaid regulations relating to case management services could result in a significant decrease in Medicaid revenues in future years.

NOTE 14 - LINE OF CREDIT:

The Board has a line of credit with Chesapeake Bank in the amount of \$300,000.

NOTE 15 - RESTRICTED FUND BALANCES:

Restricted fund balances consist of cash balances less liabilities payable from such funds for component unit organizations. These funds are restricted for the operation and maintenance of the properties, and these funds cannot be accessed by the Board without approval from the U. S. Department of Housing and Urban Development.

NOTE 16 - SUBSEQUENT EVENTS:

Properties, Inc. purchased real estate on August 27, 2008 for approximately \$366,000. There was no external financing of the purchase.

- Required Supplementary Information -

MIDDLE PENINSULA-NORTHERN COMMUNITY SERVICES BOARD

Schedule of Pension Funding Progress

Virginia Retirement System

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded)		Funded Ratio (2)/(3)	Annual Covered Payroll (6)	UAAL as a % of Payroll (4)/(6)
			Actuarial Accrued Liability (UAAL)	(3)-(2)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
June 30, 2007	\$ 13,638,667	\$ 12,537,259	\$ (1,101,408)	108.79%	\$ 7,588,342	-14.51%	
June 30, 2006	11,717,659	10,647,350	(1,070,309)	110.05%	6,883,706	-15.55%	
June 30, 2005	10,690,894	9,122,197	(1,568,697)	117.20%	6,516,052	-24.07%	

- Supplemental Information -
Combining Financial Statements
Supporting Schedule

Combining Financial Statements

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Net Assets
At June 30, 2008

ASSETS	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Current Assets:			
Cash and cash equivalents	\$ 4,066,103	\$ 512,539	\$ -
Accounts receivable, less allowance for uncollectibles	1,223,813	-	-
Accrued revenue	79,670	60,509	-
Prepaid items	162,463	6,614	-
Total current assets	<u>\$ 5,532,049</u>	<u>\$ 579,662</u>	<u>\$ -</u>
Restricted Current Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 12,127
Client funds	36,444	-	-
Total restricted current assets	<u>\$ 36,444</u>	<u>\$ -</u>	<u>\$ 12,127</u>
Capital Assets:			
Property and equipment, less accumulated depreciation	\$ 772,873	\$ 1,811,124	\$ 468,879
Total assets	<u>\$ 6,341,366</u>	<u>\$ 2,390,786</u>	<u>\$ 481,006</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 224,879	\$ 1,372	\$ -
Deposits and other	37,041	-	1,584
Compensated absences	832,002	-	-
Deferred revenue	941,037	-	-
Long-term debt, current portion	-	83,855	-
Total current liabilities	<u>\$ 2,034,959</u>	<u>\$ 85,227</u>	<u>\$ 1,584</u>
Current Liabilities Payable from Restricted Assets:			
Client funds	36,444	-	-
Long-term Liabilities:			
Long-term debt, less current portion	-	892,278	-
Total liabilities	<u>\$ 2,071,403</u>	<u>\$ 977,505</u>	<u>\$ 1,584</u>
Net Assets:			
Invested in capital assets net of related debt	\$ 772,873	\$ 834,991	\$ 468,879
Restricted	-	-	12,127
Unrestricted	3,497,090	578,290	(1,584)
Total net assets	<u>\$ 4,269,963</u>	<u>\$ 1,413,281</u>	<u>\$ 479,422</u>

<u>Lively Turning Point</u>	<u>Inter- company Eliminations</u>	<u>Total</u>
\$ -	\$ -	\$ 4,578,642
-	-	1,223,813
-	(60,509)	79,670
-	-	169,077
<u>\$ -</u>	<u>\$ (60,509)</u>	<u>\$ 6,051,202</u>
\$ 13,968	\$ -	\$ 26,095
-	-	36,444
<u>\$ 13,968</u>	<u>\$ -</u>	<u>\$ 62,539</u>
\$ 227,145	\$ -	\$ 3,280,021
<u>\$ 241,113</u>	<u>\$ (60,509)</u>	<u>\$ 9,393,762</u>
\$ 4,827	\$ (60,509)	\$ 170,569
1,094	-	39,719
-	-	832,002
-	-	941,037
-	-	83,855
<u>\$ 5,921</u>	<u>\$ (60,509)</u>	<u>\$ 2,067,182</u>
-	-	36,444
-	-	892,278
<u>\$ 5,921</u>	<u>\$ (60,509)</u>	<u>\$ 2,995,904</u>
\$ 227,145	\$ -	\$ 2,303,888
13,968	-	26,095
(5,921)	-	4,067,875
<u>\$ 235,192</u>	<u>\$ -</u>	<u>\$ 6,397,858</u>

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Operating Revenues:			
Net patient service revenue	\$ 11,038,250	\$ -	\$ -
Operating Expenses:			
Salaries and benefits	\$ 12,569,957	\$ -	\$ -
Staff development	178,993	-	-
Facility	1,206,933	20,269	29,496
Supplies	469,891	216	-
Travel	309,915	-	-
Contractual and consulting	149,778	3,102	-
Depreciation and amortization	263,412	74,771	19,392
Other	729,566	371	-
Total operating expenses	\$ 15,878,445	\$ 98,729	\$ 48,888
Operating income (loss)	\$ (4,840,195)	\$ (98,729)	\$ (48,888)
Nonoperating income (expenses):			
Appropriations:			
Commonwealth of Virginia	\$ 3,349,541	\$ -	\$ -
Federal government	1,280,641	-	-
Local governments	418,775	-	-
Contributions	41,355	67,301	-
Other	204,102	232,757	25,439
Interest income	121,860	2,452	25
Interest expense	-	(64,228)	-
Net nonoperating income	\$ 5,416,274	\$ 238,282	\$ 25,464
Change in net assets	\$ 576,079	\$ 139,553	\$ (23,424)
Net assets, beginning of year	3,693,884	1,273,728	502,846
Net assets, end of year	\$ 4,269,963	\$ 1,413,281	\$ 479,422

<u>Lively Turning Point</u>	<u>Inter- company Eliminations</u>	<u>Total</u>
\$ -	\$ -	\$ 11,038,250
\$ -	\$ -	\$ 12,569,957
-	-	178,993
20,622	(232,325)	1,044,995
-	-	470,107
-	-	309,915
-	-	152,880
8,918	-	366,493
-	(67,301)	662,636
<u>\$ 29,540</u>	<u>\$ (299,626)</u>	<u>\$ 15,755,976</u>
<u>\$ (29,540)</u>	<u>\$ 299,626</u>	<u>\$ (4,717,726)</u>
\$ -	\$ -	\$ 3,349,541
-	-	1,280,641
-	-	418,775
-	(67,301)	41,355
21,457	(232,325)	251,430
14	-	124,351
-	-	(64,228)
<u>\$ 21,471</u>	<u>\$ (299,626)</u>	<u>\$ 5,401,865</u>
\$ (8,069)	\$ -	\$ 684,139
<u>243,261</u>	<u>-</u>	<u>5,713,719</u>
<u>\$ 235,192</u>	<u>\$ -</u>	<u>\$ 6,397,858</u>

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2008

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Cash flows provided (used) by operating activities:			
Receipts from customers	\$ 11,086,836	\$ -	\$ -
Payments to suppliers	(2,735,085)	(74,606)	(29,357)
Payments to and for employees	(12,391,124)	-	-
Total cash flows provided (used) by operating activities	<u>\$ (4,039,373)</u>	<u>\$ (74,606)</u>	<u>\$ (29,357)</u>
Cash flows provided (used) by noncapital and related financing activities:			
Government grants	\$ 5,054,910	\$ -	\$ -
Other	259,042	299,060	25,439
Total cash flows provided (used) by noncapital and related financial activities	<u>\$ 5,313,952</u>	<u>\$ 299,060</u>	<u>\$ 25,439</u>
Cash flows provided (used) by capital and related financing activities:			
Acquisition of fixed assets	\$ (323,628)	\$ (3,380)	\$ -
Interest payments on long-term debt	-	(65,243)	-
Principal payments on long-term debt	-	(82,370)	-
Cash flows provided (used) by capital and related financing activities	<u>\$ (323,628)</u>	<u>\$ (150,993)</u>	<u>\$ -</u>
Cash flows provided (used) by investing activities:			
Interest income	\$ 121,860	\$ 2,452	\$ 25
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,072,811</u>	<u>\$ 75,913</u>	<u>\$ (3,893)</u>
Cash and cash equivalents, beginning of year	<u>2,993,292</u>	<u>436,626</u>	<u>16,020</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,066,103</u></u>	<u><u>\$ 512,539</u></u>	<u><u>\$ 12,127</u></u>
Cash and cash equivalents:			
Unrestricted	\$ 4,066,103	\$ 512,539	\$ -
Restricted	-	-	12,127
Total	<u>\$ 4,066,103</u>	<u>\$ 512,539</u>	<u>\$ 12,127</u>
Cash flows provided (used) by operating activities:			
Operating income (loss)	\$ (4,840,195)	\$ (98,729)	\$ (48,888)
Adjustments to reconcile excess of revenues over expenses to cash provided (used) by operations:			
Depreciation and amortization	263,412	74,771	19,392
Loss on disposition of capital assets	37,980	-	-
Changes in assets and liabilities:			
Accounts receivable and accrued revenue	7,644	(50,648)	-
Prepaid items	6,521	-	-
Accounts payable and accrued expenses	59,681	-	-
Deposits and other	10,423	-	139
Compensated absences	159,089	-	-
Deferred revenue	256,072	-	-
Cash flows provided (used) by operating activities	<u>\$ (4,039,373)</u>	<u>\$ (74,606)</u>	<u>\$ (29,357)</u>

Lively Turning Point	Inter- Company Eliminations	Total
\$ -	\$ -	\$ 11,086,836
(20,398)	239,117	(2,620,329)
-	-	(12,391,124)
<u>\$ (20,398)</u>	<u>\$ 239,117</u>	<u>\$ (3,924,617)</u>
\$ -	\$ -	\$ 5,054,910
21,515	(239,117)	365,939
<u>\$ 21,515</u>	<u>\$ (239,117)</u>	<u>\$ 5,420,849</u>
\$ -	\$ -	\$ (327,008)
-	-	(65,243)
-	-	(82,370)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (474,621)</u>
\$ 14	\$ -	\$ 124,351
\$ 1,131	\$ -	\$ 1,145,962
12,837	-	3,458,775
<u>\$ 13,968</u>	<u>\$ -</u>	<u>\$ 4,604,737</u>
\$ -	\$ -	\$ 4,578,642
13,968	-	26,095
<u>\$ 13,968</u>	<u>\$ -</u>	<u>\$ 4,604,737</u>
\$ (29,540)	\$ 299,626	\$ (4,717,726)
8,918	-	366,493
-	-	37,980
-	-	(43,004)
-	-	6,521
229	(60,509)	(599)
(5)	-	10,557
-	-	159,089
-	-	256,072
<u>\$ (20,398)</u>	<u>\$ 239,117</u>	<u>\$ (3,924,617)</u>

Supporting Schedule

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Insurance
At June 30, 2008

Insurance Coverages

Insurance Company	Policy No.	Policy Period	Annual Policy Cost	Insurance Coverage	Deductible
Vaco Risk Management Programs (VaCoRP)	VA-MI-220C-07	7/1/07-6/30/08	\$ 70,440	Automobile Liability/Comprehensive and Collision - ACV \$ 2,000,000 Medical payments 5,000	\$ 500
Commonwealth of Virginia Division of Risk Management	N/A	7/1/07-6/30/08	12,229	Medical Malpractice General Liability 1,925,000	1,000
Vaco Risk Management Programs (VaCoRP)	VA-MI-220C-07	7/1/07-6/30/08	735	Employee dishonesty 250,000	250
			8,749	Real property, personal property, 90% co-insurance Real property 3,838,650 Personal property 1,256,668 Business income/extra expense 100,000 Inland marine 2,000 Computer hardware and software 383,848 Other 5,000	5,000 5,000 - - - -
			13,663	General liability 2,000,000 Fire legal liability 100,000 Premises medical 5,000 Premises medical payment per incident 10,000	1,000 1,000 - -
			6,298	Public Officials Liability Per occurrence 1,000,000	1,000
Vaco Risk Management Programs (VaCoRP)	VA-MI-220C-07	7/1/07-6/30/08	153,574	Workers compensation Each accident 1,000,000 Policy limit - disease 500,000 Each employee - disease 100,000	- - -

- Other Information -

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Client Statistics
Last Ten Fiscal Years

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Unduplicated Clients Served										
Mental Health	4,844	4,465	4,596	4,678	4,148	2,873	2,158	1,685	2,853	2,071
Mental Retardation	729	703	718	683	644	509	509	534	410	408
Substance Abuse	1,157	1,452	1,649	1,363	1,555	1,762	1,060	1,071	1,576	1,059

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE BOARD OF DIRECTORS
MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD
SALUDA, VIRGINIA

We have audited the financial statements of Middle Peninsula - Northern Neck Community Services Board, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Middle Peninsula - Northern Neck Community Services 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 Middle Peninsula - Northern Neck Community Services Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Middle Peninsula - Northern Neck Community Services Board's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Middle Peninsula - Northern Neck Community Services Board in a separate memorandum dated October 23, 2008.

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

Robinson, Jarner, & Associates

Charlottesville, Virginia
October 23, 2008

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE BOARD OF DIRECTORS
MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD
SALUDA, VIRGINIA

Compliance

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

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

In our opinion, Middle Peninsula - Northern Neck Community Services Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Middle Peninsula - Northern Neck Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Middle Peninsula - Northern Neck Community Services Board's internal control over compliance with the 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 Middle Peninsula - Northern Neck Community Services 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 Middle Peninsula - Northern Neck Community Services Board's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Middle Peninsula - Northern Neck Community Services Board'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 the Board of Directors, management, 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.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
October 23, 2008

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Expenditures
Department of Agriculture:		
Direct payments:		
Child and Adult Care Food Program	10.558	\$ <u>12,333</u>
Department of Health and Human Services:		
Direct payments:		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	\$ 99,516
Pass through payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services Consolidated Knowledge Development and Application Program	93.230	1,875
Substance Abuse and Treatment Block Grant	93.959	778,710
Mental Health Block Grant	93.958	66,135
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	<u>26,000</u>
Total Department of Health and Human Services		\$ <u>972,236</u>
Department of Education:		
Pass through payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services Early Intervention - Part C	84.181	<u>284,971</u>
Total Expenditures		<u>\$ 1,269,540</u>

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No
Identification of major programs:	
<u>CFDA #</u> <u>Name of Federal Program or Cluster</u>	
93.959 Substance Abuse Prevention and Treatment Block Grant	
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2008

There were no items reported.