
NORTHWESTERN COMMUNITY SERVICES BOARD

FRONT ROYAL, VIRGINIA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ VERONA □ CHRISTIANSBURG



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NORTHWESTERN COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

Michael Dart, Chair

Blaine Alkire

Derek Aston

Beverly Fleming

Robert Geiser

Michael Haymaker

Dr. Bernard Lewis

April McClain

Melissa Mumaw

Joan Richardson

Kathleen Ruffo

Robert Steig

Frederick Vondy

Glenn White

John Van Wyck

PRINCIPAL MANAGEMENT TEAM

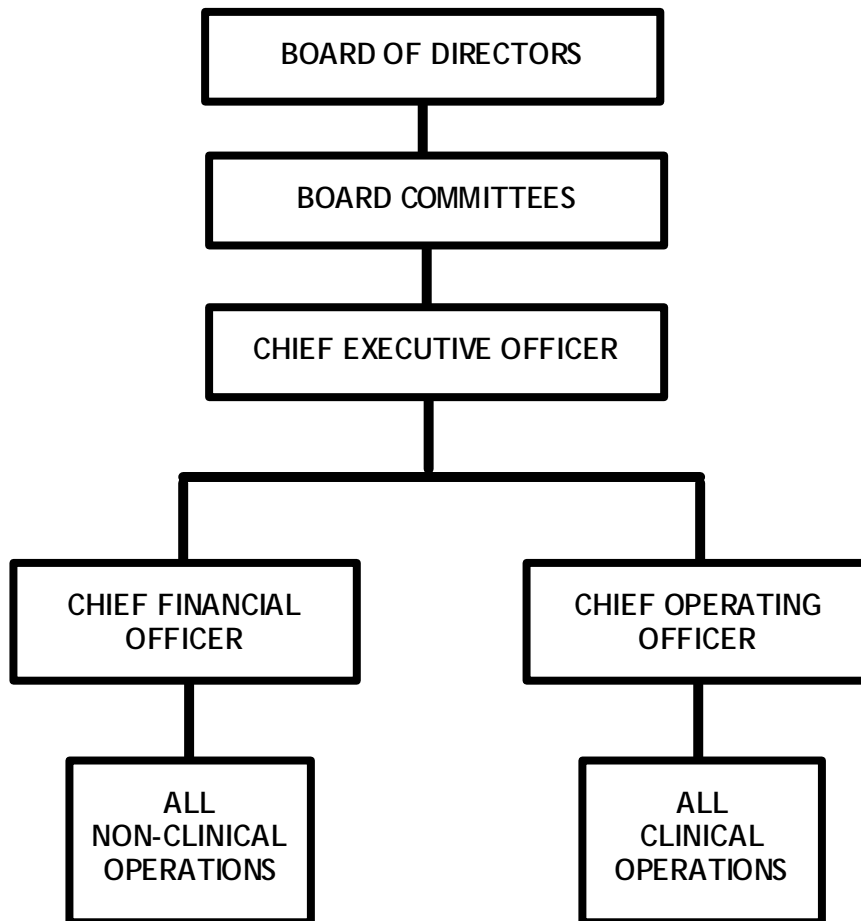
Millard Hall, Chief Executive Officer

David Toth, Chief Financial Officer

Mark Gleason, Chief Operating Officer

NORTHWESTERN COMMUNITY SERVICES BOARD

ORGANIZATIONAL CHART



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Northwestern Community Services Board
Front Royal, Virginia

We have audited the statement of net assets of Northwestern 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 Northwestern 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 October 7, 2007, 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; *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. 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 Northwestern 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 September 17, 2008, on our consideration of the Northwestern 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 Required Supplementary Information as listed in the table of contents, are 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northwestern Community Services Board, basic financial statements. The supporting schedule and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Northwestern Community Services Board. This schedule and the other supporting schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Robinson, James, Co. Associates

Charlottesville, Virginia
September 17, 2008

NORTHWESTERN COMMUNITY SERVICES BOARD

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

The following Management's Discussion and Analysis (MD&A) of the Northwestern Community Services Board's (NWCSB) financial performance provides the reader with an overview to the financial statements of the NWCSB for the fiscal year ended June 30, 2008.

The Northwestern Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the NWCSB as of June 30, 2008. These are: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses and Changes in Net Assets; and (3) Statement of Cash Flows.

NWCSB'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.

Information reflecting the results of operations during the fiscal year 2008 is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement reflects total revenue and total expenses for the fiscal year ended June 30, 2008 and reflects excess or deficiency of revenue over expenses for the year.

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

Financial Position: A summary of NWCSB's Statement of Net Assets for fiscal years 2008, 2007 and 2006 is presented below.

Summary Statement of Net Assets

	2008	2007	2006
Current assets	\$ 2,300,029	\$ 1,514,569	\$ 710,338
Current restricted assets	115,854	98,270	109,671
Capital assets	3,624,989	3,841,876	3,703,709
Total assets	<u>\$ 6,040,872</u>	<u>\$ 5,454,715</u>	<u>\$ 4,523,718</u>
Current liabilities	\$ 499,473	\$ 468,794	\$ 532,462
Long-term liabilities	2,718,171	2,838,264	2,953,053
Total liabilities	<u>\$ 3,217,644</u>	<u>\$ 3,307,058</u>	<u>\$ 3,485,515</u>
Net Assets:			
Invested in capital assets	\$ 886,295	\$ 973,394	\$ 734,585
Unrestricted	1,936,933	1,174,263	303,618
Total net assets	<u>\$ 2,823,228</u>	<u>\$ 2,147,657</u>	<u>\$ 1,038,203</u>
Total liabilities and net assets	<u>\$ 6,040,872</u>	<u>\$ 5,454,715</u>	<u>\$ 4,523,718</u>

The financial position of Northwestern Community Services Board is strong with net assets of \$2,823,228 as of June 30, 2008.

A summary of NWCSB's Statement of Revenues, Expenses and Changes in Net Assets for fiscal years 2008, 2007 and 2006 is presented below.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	2006
Operating revenues:			
Net patient service revenue	\$ 5,129,835	\$ 5,047,287	\$ 4,770,325
Operating expenses	12,032,497	11,034,126	11,315,421
Operating income (loss)	\$ (6,902,662)	\$ (5,986,839)	\$ (6,545,096)
Non-operating income - net	7,578,233	7,096,293	6,123,539
Change in net assets	\$ 675,571	\$ 1,109,454	\$ (421,557)

Operating income is generated from providing patient services with the majority of this income generated from Medicaid. In fiscal years 2008, 2007, and 2006 Medicaid income represented approximately 92%, 89%, and 86% of our total operating income.

Cash Flow: A summary of NWCSB's Statement of Cash Flows for fiscal years 2008, 2007 and 2006 is presented below.

Condensed Statement of Cash Flows

	2008	2007	2006
Cash flows provided (used) by operating activities	\$ (6,400,583)	\$ (5,900,105)	\$ (6,347,476)
Cash flows provided (used) by non-capital and related financing activities	7,637,672	7,202,419	6,230,277
Cash flows provided (used) by capital and related financing activities	(335,671)	(674,209)	(300,747)
Cash flows provided (used) by investing activities	73,517	61,319	36,336
Net increase (decrease) in cash and cash equivalents	\$ 974,935	\$ 689,424	\$ (381,610)
Cash and cash equivalents, beginning of year	1,107,476	418,052	799,662
Cash and cash equivalents, end of year	\$ 2,082,411	\$ 1,107,476	\$ 418,052

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 a federal construction grant and acquisition of capital assets (see Notes to Financial Statements, Note 3 - Capital Assets). Also reflected are principal and interest payments on mortgages and loans payable.

Cash Flows from Investing Activities are comprised of interest income.

During 2008, there was an increase of \$974,935 in cash and cash equivalents. In 2007 and 2006 there was an increase of \$689,424 and a decrease of \$381,610, respectively.

Capital Assets and Debt Administration

Capital Assets:

On June 30, 2008 the Northwestern Community Services Board had \$3,624,989 in net capital assets. These were comprised primarily of land, buildings and improvements, and equipment and vehicles. (See Notes to Financial Statements, Note 3 - Capital Assets.) This is a net decrease of \$216,887 from 2007, which resulted primarily from depreciation expense in excess of the cost of new additions.

Long-Term Debt:

Long-term obligations as of June 30, 2008 are \$2,838,272 (see Notes to Financial Statements, Note 5 - Long-term Obligations). This debt is for two facilities. The first is Sunshine House in New Market, which is financed by two notes with Rural Economic Development Administration (FmHA) with a total balance of \$391,384. The second facility is the Center for Health and Development in Front Royal and is financed by two notes; one with FmHA with a balance of \$1,127,313 and the second note is with BB&T Bank with a balance of \$1,319,575.

There is not an expectation that long-term debt will increase in fiscal year 2009.

There are no current construction plans for fiscal year 2009.

Other Significant Activities in Fiscal Year 2008

During fiscal year 2008, Northwestern Community Services Board spent a great deal of time reviewing all of the programs currently being offered in order to meet anticipated Medicaid reimbursement changes relating to case management services that would impact fee income and reduce the total funds available to operate its programs. This change was anticipated to take place in April 2008, but was deferred by Congress until Spring of 2009.

The Board continues to review all operations in order to be ready to make necessary changes to the programs it operates to stay within available revenues should Medicaid proceed with the proposed changes.

During fiscal year 2008, the transformation services were fully implemented and proved to be well accepted in the community.

Northwestern Community Services' financial condition improved in fiscal year 2008 and, while the future holds some uncertainties around Medicaid reimbursement for case management services, Northwestern's planning should allow the Board to adapt to these changes. Another challenge possibly facing the Board is the current State budget shortfall which could also reduce the amount of State General Funds the Board receives in fiscal year 2009.

For fiscal year 2009, local government funding increased for the second year in a row by the largest amount in agency history and the Board's programs are on a sound financial footing.

- Basic Financial Statements -

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Net Assets

At June 30, 2008

(With Comparative Totals for 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 1,966,557	\$ 1,009,206
Accounts receivable, less allowance for uncollectibles	<u>333,472</u>	<u>505,363</u>
Total current assets	<u>\$ 2,300,029</u>	<u>\$ 1,514,569</u>
<u>Current Restricted Assets:</u>		
Cash and cash equivalents - debt reserve accounts	\$ 99,578	\$ 84,591
Cash and cash equivalents - client funds	<u>16,276</u>	<u>13,679</u>
Total current restricted assets	<u>\$ 115,854</u>	<u>\$ 98,270</u>
<u>Capital Assets:</u>		
Property and equipment, less accumulated depreciation	<u>\$ 3,624,989</u>	<u>\$ 3,841,876</u>
Total assets	<u>\$ 6,040,872</u>	<u>\$ 5,454,715</u>
<u>Liabilities and Net Assets</u>		
<u>Current Liabilities:</u>		
Compensated absences	\$ 363,096	\$ 340,306
Client funds	16,276	13,679
Long-term debt, current portion	<u>120,101</u>	<u>114,809</u>
Total current liabilities	<u>\$ 499,473</u>	<u>\$ 468,794</u>
<u>Long-term Liabilities:</u>		
Long-term debt, less current portion	<u>2,718,171</u>	<u>2,838,264</u>
Total liabilities	<u>\$ 3,217,644</u>	<u>\$ 3,307,058</u>
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	\$ 886,295	\$ 973,394
Unrestricted	<u>1,936,933</u>	<u>1,174,263</u>
Total net assets	<u>\$ 2,823,228</u>	<u>\$ 2,147,657</u>

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

NORTHWESTERN 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	\$ 5,129,835	\$ 5,047,287
Operating Expenses:		
Salaries and benefits	\$ 8,328,100	\$ 7,718,003
Staff development	51,571	38,952
Facility	870,006	925,580
Supplies	252,523	267,015
Travel	181,976	169,954
Contractual and consulting	1,880,831	1,463,215
Depreciation	290,077	288,290
Other	177,413	163,117
Total operating expenses	\$ 12,032,497	\$ 11,034,126
Operating income (loss)	\$ (6,902,662)	\$ (5,986,839)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	\$ 5,192,134	\$ 4,592,748
Federal government	1,106,771	1,277,700
Local governments	1,053,875	831,129
Interest income	73,517	61,319
Other	284,892	471,404
Interest expense	(132,956)	(138,007)
Net nonoperating income	\$ 7,578,233	\$ 7,096,293
Change in net assets	\$ 675,571	\$ 1,109,454
Net assets, beginning of year	<u>2,147,657</u>	<u>1,038,203</u>
Net assets, end of year	<u>\$ 2,823,228</u>	<u>\$ 2,147,657</u>

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

	<u>2008</u>	<u>2007</u>
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 5,301,726	\$ 4,926,865
Payments to suppliers	(3,390,638)	(3,042,686)
Payments to and for employees	(8,311,671)	(7,784,284)
Total cash flows provided (used) by operating activities	<u>\$ (6,400,583)</u>	<u>\$ (5,900,105)</u>
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 7,352,780	\$ 6,691,689
Other	284,892	510,730
Total cash flows provided (used) by noncapital and related financing activities	<u>\$ 7,637,672</u>	<u>\$ 7,202,419</u>
Cash flows provided (used) by capital and related financing activities:		
Acquisition of capital assets	\$ (87,914)	\$ (426,457)
Interest on long-term debt	(132,956)	(138,007)
Principal payments on mortgages and loans payable	(114,801)	(109,745)
Cash flows provided (used) by capital and related financing activities	<u>\$ (335,671)</u>	<u>\$ (674,209)</u>
Cash flows provided (used) by investing activities:		
Interest income	\$ 73,517	\$ 61,319
Net increase (decrease) in cash and cash equivalents	\$ 974,935	\$ 689,424
Cash and cash equivalents, beginning of year	1,107,476	418,052
Cash and cash equivalents, end of year	<u>\$ 2,082,411</u>	<u>\$ 1,107,476</u>
Cash and cash equivalents:		
Unrestricted	\$ 1,966,557	\$ 1,009,206
Restricted	115,854	98,270
Total cash and cash equivalents	<u>\$ 2,082,411</u>	<u>\$ 1,107,476</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (6,902,662)	\$ (5,986,839)
Adjustments to reconcile excess of revenues over expenses to cash provided (used) by operations:		
Depreciation	290,077	288,290
Write-down of capital assets	14,724	-
Changes in assets and liabilities:		
Accounts receivable	171,891	(120,423)
Prepaid items	-	(17,017)
Compensated absences	22,790	(56,526)
Client funds	2,597	2,298
Deferred revenue	-	(9,888)
Cash flows from operating activities	<u>\$ (6,400,583)</u>	<u>\$ (5,900,105)</u>

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

NORTHWESTERN 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 Clarke, Frederick, Page, Shenandoah and Warren and the City of Winchester 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 and Mental Retardation. 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 GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations for which it is considered financially accountable.

Based on the above criteria, no other organization or entities have been included as part of the reporting entity.

The Board is reported as a jointly governed entity by the participant localities in their financial reports.

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 pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Enterprise Fund Accounting:

Northwestern 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 1 - Summary of Significant Accounting Policies: (continued)

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. Also, see Note 2.

H. 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.

I. Client Fees and Allowance for Uncollectible Accounts:

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.

A significant majority of fees collected result from Medicaid billings. An allowance for doubtful client accounts has been estimated by management to approximate \$170,775 at June 30, 2008 and \$177,907 at June 30, 2007.

J. Capital Assets:

Capital assets acquisitions that cost \$5,000 or more are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 40 years and is computed using the straight-line method. Donated fixed assets are recorded at their estimated fair market value at the time of the gift.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 1 - Summary of Significant Accounting Policies: (continued)

K. Restricted Assets:

The Board segregates funds reserved for debt service as required by loan agreements with Rural Development and client funds. The restricted debt service accounts were \$99,578 and \$84,591, and client funds were \$16,276 and \$13,679 at June 30, 2008 and 2007, respectively.

L. Compensated Absences:

The Board's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service.

Employees terminating their employment are paid by the Board their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

M. 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 quarter. The final quarterly report is generally due by September 15 (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.

N. Comparative Amounts:

Comparative amounts for the prior year are presented for informational purposes only.

O. Operating and Nonoperating Revenues and Expenses:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 2 - Deposits and Investments:

Cash and Cash Equivalents: The Board considers all highly liquid cash investments and certificates of deposit, regardless of maturity, to be cash and cash equivalents. A summary of cash and cash equivalents is as follows:

	<u>2008</u>	<u>2007</u>
Cash in bank - operating	\$ (282,414)	\$ (267,315)
Cash in bank - restricted - debt reserves	99,578	84,591
Cash on hand and petty cash accounts	13,125	21,349
Client funds - restricted	16,276	13,679
Investments	<u>2,235,846</u>	<u>1,255,172</u>
Total	<u>\$ 2,082,411</u>	<u>\$ 1,107,476</u>

Deposits:

At year-end the Board's deposits with banks were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The carrying value of deposits in banks was (\$153,435) and the bank balances were \$208,341.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Board's investment policies are the same as the state statutes.

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.

The Board's investments in repurchase agreements at June 30, 2008 were held by the Board's custodial bank.

NORTHWESTERN 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 the 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	\$ 518,975	\$ -	\$ -	\$ -	\$ -

Concentration of Credit Risk:

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

The Board had investments at June 30, 2008, with more than 5% of the total in the securities underlying the Repurchase Agreement with BB&T Bank. This investment represented 77% of total investments.

Interest Rate Risk:

The Board's investment policy prohibits investing in instruments with a maturity date of greater than one year from the date of purchase.

Investment Type	Fair Value	Investment Maturity in Years			
		Less Than One Year	1-5 Years	6-10 Years	10 Years +
Virginia Local Government Investment Pool	\$ 518,975	\$ 518,975	\$ -	\$ -	\$ -
Repurchase agreements	1,716,871	1,716,871	-	-	-
Total	\$ 2,235,846	\$ 2,235,846	\$ -	\$ -	\$ -

The repurchase agreements are collateralized by U.S. Government Agency Securities.

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.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 3 - Capital Assets:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 129,881	\$ -	\$ -	\$ 129,881
Capital assets being depreciated:				
Building and improvements	\$ 4,408,506	\$ -	\$ -	\$ 4,408,506
Equipment and vehicles	1,139,590	87,914	121,720	1,105,784
Leasehold improvements	11,895	-	-	11,895
Total capital assets being depreciated	\$ 5,559,991	\$ 87,914	\$ 121,720	\$ 5,526,185
Less: Accumulated depreciation	1,847,996	290,077	106,996	2,031,077
Net capital assets being depreciated	\$ 3,711,995	\$ (202,163)	\$ 14,724	\$ 3,495,108
Net capital assets	\$ 3,841,876	\$ (202,163)	\$ 14,724	\$ 3,624,989

Note 4 - Lease Agreements:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to six years. Future minimum lease requirements for the rental of office space are as follows:

Year Ending June 30,	
2009	\$ <u>65,134</u>

Total rental expenses amounted to \$397,421 in 2008 and \$388,013 in 2007.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 5 - Long-term Obligations:

Claims, Judgments and Compensated Absences:

In accordance with GASB Statement 16, "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," the Board has accrued the liability arising from outstanding claims and judgments and compensated absences.

Board employees earn leave based on length of service. No benefits or pay is received for unused sick leave upon termination by general government employees. The Board has outstanding accrued leave pay totaling \$363,096 at June 30, 2008 and \$340,306 at June 30, 2007.

Long-term Debt:

The following is a summary of long-term obligation transactions for the Board for the year ended June 30, 2008.

	Land & Building Loans
Balance payable, July 1, 2007	\$ 2,953,073
Principal-paid on long-term debt	<u>(114,801)</u>
Balance payable, June 30, 2008	<u>\$ 2,838,272</u>

Annual requirements to amortize long-term debt are as follows:

Fiscal Year	Principal	Interest
2009	\$ 120,101	\$ 127,657
2010	1,307,830	113,915
2011	58,354	68,642
2012	61,329	65,667
2013	64,455	62,541
2014-2018	375,048	259,932
2019-2023	480,934	154,046
2024-2028	<u>370,221</u>	<u>38,287</u>
Total	<u>\$ 2,838,272</u>	<u>\$ 890,687</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 5 - Long-term Obligations: (continued)

Details of Long-Term Indebtedness:

Loans payable:

	<u>Balance Due</u>	<u>Current Portion</u>
Rural Economic Development Administration (FmHA):		
Secured by real estate located in New Market, Virginia:		
Original amount of \$79,900, interest at 5%, payments of \$436 per month, including principal and interest, matures in 2024	\$ 56,822	\$ 2,447
Original amount of \$466,000, interest at 5.25%, payments of \$2,615 per month, including principal and interest, matures in 2024	334,562	14,154
Secured by real estate located in Front Royal, Virginia:		
Original amount of \$1,400,000, payments of \$7,532 per month, including principal and interest, interest at 4.875%, matures in 2027	1,127,313	36,231
BB&T Bank:		
Secured by real estate located in Front Royal, Virginia:		
Original amount of \$1,787,000, monthly payments of \$10,063 which includes principal and interest, interest at 4.15%, matures in 2010	<u>1,319,575</u>	<u>67,269</u>
Total	<u>\$ 2,838,272</u>	<u>\$ 120,101</u>

The Board is in compliance with federal arbitrage regulations.

Note 6 - Defined Benefit Pension Plan:

A. Plan Description:

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Administering Entity: Virginia Retirement 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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 6 - Defined Benefit Pension Plan: (continued)

A. Plan Description: (continued)

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/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

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 2.36% and for fiscal year ended 2006 was .75% of the annual covered payroll.

C. Annual Pension Costs:

For fiscal 2008, the Board's annual pension cost of \$111,953 (does not include the employee share assumed by the Board which was \$237,188) 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
6/30/2008	\$ 111,953	100%	\$ -
6/30/2007	103,440	100%	-
6/30/2006	33,808	100%	-

(1) Employer portion only

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 6 - Defined Benefit Pension Plan: (continued)

C. Annual Pension Costs: (continued)

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. The Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

D. Funded Status and Funding Progress:

As of June 30, 2007, the most recent actuarial valuation date, the plan was 115.70% funded. The actuarial accrued liability for benefits was \$10,212,630, and the actuarial value of assets was \$11,815,998, resulting in an unfunded actuarial accrued liability (UAAL) of (\$1,603,368). The covered payroll (annual payroll of active employees covered by the plan) was \$4,260,706, and ratio of the UAAL to the covered payroll was -37.63%.

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 7 - Fiscal Agent:

The County of Frederick, Virginia acts as fiscal agent for the Board pursuant to the requirements of Section 37.1-195 of the Code of Virginia (1950), as amended.

Note 8 - Unsecured Line of Credit:

The Board has an unsecured line of credit with BB&T Bank of Winchester in the amount of \$500,000.

The Board has no outstanding balance at June 30, 2008.

Note 9 - Risk Management:

The Board has contracted with insurance carriers for property damage and liability, workers compensation, directors and officer liability and professional liability coverage's. Coverages are \$6,000,000 for directors and officers and professional liability policies. Workers compensation coverages are for statutory amounts. There are no surety bond coverages required or purchased for members of the Board of Directors. The Board also has a crime coverage package of \$150,000. There have been no settlements which exceeded insurance coverage in the past three years. The Board retains the risk of deductibles on each policy plus any settlements over insurance coverages.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 10 - 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 the 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 11 - Funding from Participant Localities:

The Board received appropriations from the participant localities as follows:

	<u>2008</u>	<u>2007</u>
County of Clarke	\$ 41,000	\$ 41,000
County of Frederick	298,427	197,942
County of Page	86,954	60,000
County of Shenandoah	229,187	222,187
County of Warren	215,000	175,000
City of Winchester	183,307	135,000
Total	<u>\$ 1,053,875</u>	<u>\$ 831,129</u>

Note 12 - Client Fees and Receivables:

Client fee revenues were from the following sources:

	<u>2008</u>	<u>2007</u>
Medicaid	\$ 4,729,303	\$ 4,472,573
Direct client	208,153	268,691
Third-party and other	192,379	306,023
Total	<u>\$ 5,129,835</u>	<u>\$ 5,047,287</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 12 - Client Fees and Receivables: (continued)

Net client fee receivables at June 30, 2008 and 2007 were due from the following sources:

	<u>2008</u>	<u>2007</u>
Direct client	\$ 236,820	\$ 221,245
Medicaid	168,831	361,007
Third party and other	<u>98,594</u>	<u>101,018</u>
Total	\$ 504,245	\$ 683,270
Allowance for uncollectibles	<u>170,775</u>	<u>177,907</u>
Net fees receivable	<u>\$ 333,470</u>	<u>\$ 505,363</u>

Other than Medicaid fees receivable, there are no individually significant receivables.

Note 13 - Deferred Compensation Plan:

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by Edward Jones (an investment firm).

Note 14 - Other Post Employment Benefits:

The Board pays one-half of the single coverage premium of health insurance for employees who work for the Board for at least fifteen years and retire under the Virginia Retirement System. The retired employee can elect to have this coverage until eligible for Medicare. The retired employee's spouse can also be covered until they are eligible for Medicare except that the spouse portion of the cost must be assumed by the retired employee. During fiscal year 2008 there were three persons covered in this plan which had a total cost to the Board of \$6,893.

Note 15 - Subsequent Event:

In July, 2008 the Board accepted a buy-out of a lease agreement where the tenant leased certain facilities in the Board's administrative complex located in Front Royal, Virginia. The amount of the buy-out settlement was \$135,192. The Board subsequently leased the space to the Warren County, Virginia School Board for an annual rental of \$60,000. This lease is on a year-to-year basis.

- Required Supplementary Information -

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Pension Funding Progress
As of June 30, 2008

Virginia Retirement System

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability		Funded Ratio (2)/(3)	Annual Covered Payroll (6)	UAAL as a % of Payroll (4)/(6)
			(UAAL)	(3)-(2)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
June 30, 2007	\$ 11,815,998	\$ 10,212,630	\$ (1,603,368)	115.70%	\$ 4,260,706	-37.63%	
June 30, 2006	10,340,636	9,193,808	(1,146,828)	112.47%	4,666,302	-24.58%	
June 30, 2005	9,573,536	8,313,340	(1,260,196)	115.16%	4,581,208	-27.51%	

- Supporting Schedule -

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Insurance
At June 30, 2008

Insurance Coverages

Insurance Company	Policy No.	Policy Period	Annual Policy Cost	Insurance Coverage	Deductible	
Philadelphia Insurance Co.	PHPK23676	6/4/08 - 6/4/09	\$ 62,159	Automobile Liability/Comprehensive and Collision	\$ 1,000,000	\$ 500
				Medical payments	5,000	1,000
				Employee dishonesty	150,000	1,000
				Forgery	1,000	500
				Theft	3,000	500
				Electronic data processing Blanket coverage	1,058,355	500
				Valuable papers	205,000	500
				Miscellaneous property	25,000	500
				Accounts receivable	825,000	500
				Property coverages, 90% co-insurance		
				Real property	8,205,580	500
				Personal property	133,300	500
				Extra expense	215,000	-
Scottsdale Insurance Co.	OPS0044200	9/1/07 - 9/1/08	68,519	General liability		
				Per occurrence	2,000,000	-
				Aggregate	6,000,000	-
				Medical	5,000	-
				Employee benefits		
				Per occurrence	2,000,000	1,000
				Aggregate	6,000,000	1,000
Medical malpractice						
Per occurrence	2,000,000	-				
Aggregate	6,000,000	-				
Associates Int'l Insurance Co.	CUBW2081707	6/4/08 - 6/4/07	17,982	Umbrella/excess liability	5,000,000	10,000
American Home Assurance	WC6873588	6/4/08 - 6/4/09	88,222	Workers compensation	500,000	-

The Insurance Center of Winchester, Inc. is the Board's insurance agent for all of the above policies.

- Other Information -

NORTHWESTERN COMMUNITY SERVICES BOARD

Client Statistics
Last Ten Fiscal Years

Description	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Unduplicated Clients Served										
Mental Health	3,907	4,198	4,339	4,234	3,987	3,275	3,532	3,727	3,019	3,425
Mental Retardation	693	516	714	781	743	764	698	580	688	473
Substance Abuse	1,153	1,099	1,246	1,100	1,027	1,103	1,236	1,134	927	876
Mental Health Residential Client Days	7,710	8,788	10,220	9,038	8,095	9,063	10,319	8,312	8,094	5,476
Mental Retardation Residential Client Days	1,362	1,370	1,379	1,916	2,087	1,614	2,550	2,218	2,500	4,203
Substance Abuse Residential Client Days	1,806	1,521	1,541	2,202	3,175	N/A	N/A	N/A	N/A	N/A

N/A = Not available

NORTHWESTERN COMMUNITY SERVICES BOARD

Supplemental Information for the Virginia Department of
Mental Health, Mental Retardation and Substance Abuse Services

Reconciliation of Revenues and Expenditures of the Fourth Quarter Report
to the Statement of Operations
Year Ended June 30, 2008

	<u>Total Revenues</u>	<u>Federal Revenues</u>	<u>Expendi- tures</u>
Amounts per Fourth Quarter Reports: (September 11, 2008)			
Mental Health	\$ 8,263,091	\$ 80,580	\$ 7,667,112
Mental Retardation	2,550,860	-	2,430,894
Substance Abuse	<u>1,955,938</u>	<u>795,379</u>	<u>1,674,237</u>
Total	<u>\$ 12,769,889</u>	<u>\$ 875,959</u>	<u>\$ 11,772,243</u>
Amounts per Northwestern Community Services Board Audit Report	\$ 12,841,024	\$ 1,106,771	\$ 12,165,453
Client fees adjustment to accrual basis, net	171,891	-	-
Federal items not required to be reported on report to Department of MH, MR & SA Services			
Supportive Housing grant	(36,780)	(36,768)	(30,961)
Shelter Plus grant	(221,331)	(194,044)	(206,792)
Retained earnings reported as revenues in 4th Qtr Report			
Mental Health	68,368	-	-
Mental Retardation	-	-	-
Substance Abuse	69,950	-	-
Allocation of prior year software charges	-	-	39,978
Other items not required to be reported to State			
Probation grant	(18,640)	-	(444)
Human Rights Committee	(1,150)	-	(441)
Transformation funds - timing difference	-	-	-
Rentals	(114,263)	-	(114,263)
Capital assets capitalized	-	-	87,914
Depreciation expense	-	-	(290,077)
Principal portion of long-term debt	-	-	114,801
Compensated absences, net	-	-	(22,790)
Debt reserve funding	-	-	13,758
Other	<u>10,820</u>	<u>-</u>	<u>16,107</u>
Total per fourth quarter reports	<u>\$ 12,769,889</u>	<u>\$ 875,959</u>	<u>\$ 11,772,243</u>

- 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
Northwestern Community Services Board
Front Royal, Virginia

We have audited the financial statements of the Northwestern Community Services Board, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 17, 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 Northwestern 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 Northwestern Community Services Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwestern 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 the entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity'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 Northwestern 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*.

However, we have issued a separate letter to management relating to other matters noted in our audit of the financial statements.

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, Jarmer, Cox Associates

Charlottesville, Virginia
September 17, 2008

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Northwestern Community Services Board
Front Royal, Virginia

Compliance

We have audited the compliance of the Northwestern 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. The Northwestern 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 the Northwestern Community Services Board's management. Our responsibility is to express an opinion on Northwestern Community Services Board's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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 Northwestern 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 on Northwestern Community Services Board's compliance with those requirements.

In our opinion, Northwestern 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 Northwestern Community Services Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwestern Community Services Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwestern 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 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 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
September 17, 2008

NORTHWESTERN 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	Expendi- tures
<u>Department of Housing and Urban Development</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Supportive Housing for Persons with Disabilities	14.235	\$ 30,961
Shelter Plus Grant	14.238	<u>206,792</u>
Total Department of Housing and Urban Development		<u>\$ 237,753</u>
<u>Department of Health and Human Services</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Consolidated Knowledge Development and Application (KD & A) Program	93.230	\$ 1,878
PATH	93.150	13,831
Mental Health Block Grant	93.958	99,254
Substance Abuse Prevention and Treatment Block Grant	* 93.959	<u>774,227</u>
Total Department of Health and Human Services		<u>\$ 889,190</u>
Total expenditures of federal awards		<u>\$ 1,126,943</u>

* Major program

This schedule is presented on the cash basis of accounting and includes the federal grant activity of Northwestern 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.

Note: Items not included in above:

Rural Economic Development loan balances at June 30, 2008 for which only the payment of debt service is the primary compliance requirement.	<u>\$ 1,518,697</u>
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NORTHWESTERN 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
Reportable conditions 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
Reportable conditions 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

There were no items reported.