

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

FREDERICKSBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2008

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Board of Directors

Al Collins, Chair

David A. Vaughn, Vice-Chair

James Bailey

Linda T. Garrison

Nancy L. Beebe

Sherry L. Givens

Charles A. Cooper

Annette Johnson

Lawrence Davies

Jack Kunlo

Beth F. Elkins

Barbara C. Terry

Edith O. Fleming

Ira V. West

Barbara Williams

Principal Management Team

Ronald W. Branscome

Executive Director

Robert Nuzum

Finance and Administration Director

Frank DeForest

Clinical Services Director

James A. Gillespie

Community Support Service Director

Mary Louise Holmes

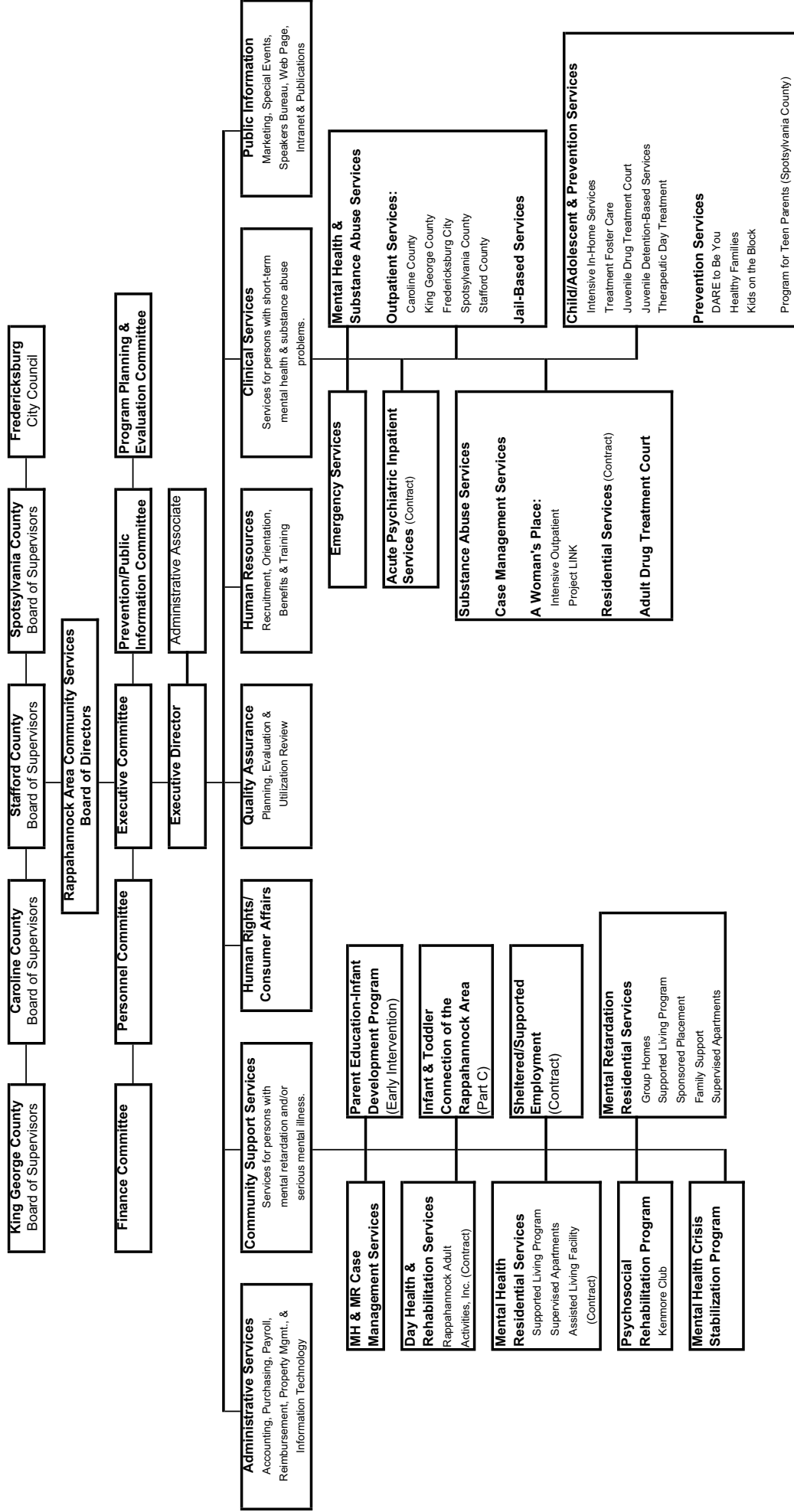
Human Resources Manager

Christopher Smith

Quality Assurance Coordinator

Rappahannock Area Community Services Board

Table of Organization



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**To the Board of Directors
Rappahannock Area Community Services Board
Fredericksburg, Virginia**

We have audited the statement of net assets of Rappahannock Area 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 Rappahannock Area 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 December 31, 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 Rappahannock Area Community Services Board, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated DRAFT, 2008, on our consideration of the Rappahannock Area 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 Rappahannock Area Community Services Board, 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 Rappahannock Area 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, Jarner, Cox Associates

Charlottesville, Virginia
December 21, 2008

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

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

Following this MD&A are the basic financial statements of the RACSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there is certain required supplementary information regarding the schedule of expenditures of federal awards and schedule of insurance. Please read this information in conjunction with the RACSB's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

RACSB's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2008. This information is reported on the statement of net assets, which reflects RACSB's assets in relation to its debts to its suppliers, employees and other creditors. The excess of assets over liabilities is the net assets.

Information regarding the results of RACSB's operations during fiscal year 2008 is reported in the Statement of Revenues, Expenses and Changes in Net Assets. This statement shows how much overall net assets increased or decreased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of RACSB during the fiscal year 2008 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

Financial Summary

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

Condensed Statement of Net Assets			
	2008	2007	2006
Current assets	\$ 13,170,957	\$ 12,336,672	\$ 10,758,285
Current restricted assets	108,070	119,014	92,731
Capital assets	11,009,802	9,757,820	8,776,374
Total assets	<u>\$ 24,288,829</u>	<u>\$ 22,213,506</u>	<u>\$ 19,627,390</u>
Current liabilities	\$ 1,820,977	\$ 2,614,920	\$ 2,206,973
Current liabilities payable from current restricted assets	108,070	119,014	92,731
Long-term liabilities	3,819,831	3,973,241	4,122,912
Total liabilities	<u>\$ 5,748,878</u>	<u>\$ 6,707,175</u>	<u>\$ 6,422,616</u>
Net Assets:			
Invested in capital assets	\$ 7,035,090	\$ 5,634,596	\$ 4,508,259
Unrestricted	11,504,861	9,871,735	8,696,515
Total net assets	<u>\$ 18,539,951</u>	<u>\$ 15,506,331</u>	<u>\$ 13,204,774</u>
Total liabilities and net assets	<u>\$ 24,288,829</u>	<u>\$ 22,213,506</u>	<u>\$ 19,627,390</u>

The financial position of the Rappahannock Area Community Services Board remains strong. This is evidenced by strong liquidity. The current ratio (current assets / current liabilities) of the RACSB was 6.9 as of June 30, 2008. On June 30, 2007 the current ratio was 4.6, and on June 30, 2006 it was 4.7:1. This increase in liquidity is mainly the result of a decrease in deferred revenue and the current portion of long-term debt. The liquidity remains strong as a current ratio of 2:1 is considered good.

Change in net assets: A summary of the RACSB's Statement of Revenues, Expenses and Changes in Net Assets for 2008, 2007 and 2006 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets			
	2008	2007	2006
Operating revenue	\$ 14,576,969	\$ 12,448,293	\$ 11,736,713
Operating expenses	21,603,779	19,542,743	17,161,948
Operating income (loss)	\$ (7,026,810)	\$ (7,094,450)	\$ (5,425,235)
Net non-operating income	10,060,430	9,396,007	6,672,237
Change in net assets	<u>\$ 3,033,620</u>	<u>\$ 2,301,557</u>	<u>\$ 1,247,002</u>

Operating Revenue is the amount of revenue received from providing patient services. The vast majority of those funds, approximately 85% (2008), 84% (2007) and 83% (2006), were received from Medicaid (please see Note 13). During 2008 Operating Revenue increased 17.1% as opposed to 6% in 2007 and 16.7% in 2006.

Financial Summary (continued)

Operating Expenses are comprised of the direct and indirect costs of operating the RACSB. These include salaries and benefits, occupancy, payments to contracting agencies, depreciation, etc. Please see the full Statement of Revenues, Expenses and Changes in Net Assets for a complete breakdown of these expenses for 2007 and 2006. During 2008, Operating Expenses increased approximately 14% as opposed to 8.1% for 2006 and 3.0% for 2005. This increase is mainly attributed to increased salary and benefits expenses.

Non-Operating Income is comprised of income received as appropriations or grants as well as miscellaneous income. Appropriations from the State of Virginia constitute 61.7% for 2008, 59.6% for 2007 and 47.4% for 2006 of the net non-operating income while grants from the federal government constitute 15.9% for 2008, 16.8% for 2007 and 25.1% for 2006. Appropriations from local governments constituted 9.4% for 2008, 9.7% for 2007 and 13.1% for 2006. The remaining net Non-Operating Income (13.0% in 2008, 13.9% in 2007 and 14.4% in 2006) consists of Other Income, Interest Income and Expense and gains/losses on the disposition of capital assets. Net Non-Operating Income increased 7.1% in 2008, increased 41.1% in 2007, and decreased 10.6% in 2006 due mainly to changes in state appropriations and Other funds.

Net Assets increased \$3,033,620 in 2008, \$2,301,557 in 2007 and \$1,247,002 in 2006. These increases represented an increase of 19.6% in 2008, 17.4% in 2007 and 6.7% in 2006 of total revenues and net other income.

Cash flows: A summary of the RACSB's Statement of Cash Flows for 2008, 2007 and 2006 is presented below.

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash Flows from (to) operating activities	\$ (6,551,354)	\$ (6,564,000)	\$ (5,549,020)
Cash Flows from (to) non-capital activities	8,938,557	9,186,917	7,264,157
Cash Flows from (to) capital activities	(2,141,001)	(1,774,097)	(1,688,201)
Cash Flows from (to) investing activities	503,483	533,707	347,731
Net increase in cash	\$ 749,685	\$ 1,382,527	\$ 374,667
Cash - beginning of year	10,783,170	9,400,643	9,025,976
Cash - end of year	<u>\$ 11,532,855</u>	<u>\$ 10,783,170</u>	<u>\$ 9,400,643</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). Of these adjustments the significant entries are \$604,952 (2008), \$510,885 (2007) and \$425,202 (2006) in depreciation.

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Net Assets' discussion above). Cash flows from capital activities are comprised of the acquisition of capital assets by the RACSB in 2008, 2007, and 2006, and principal and interest payments on mortgages and loans payable (please see Note 4 for a breakdown of Capital Assets). Cash flows from investing activities are comprised of interest income.

There was a net increase of \$749,685, \$1,382,527, and \$374,667 or 7.0%, 14.7% and 4.2% in cash and cash equivalents during 2008, 2007 and 2006, respectively.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2008, the Rappahannock Area Community Services Board had \$11,009,803 in Net Capital Assets. This is comprised of \$14,922,372 in capital assets less \$3,912,569 in accumulated depreciation (please see Note 4). Of the total capital assets, furniture and equipment (including information technology assets and vehicles) constitutes 22%, land constitutes 11%, and buildings and improvements constitute 66%. Construction in progress constitutes the remaining 1% and consists of various projects.

Long-Term Debt

Long-term obligations as of June 30, 2008 equaled \$3,974,713 (please see Note 8). This is a decrease of \$148,411 due to principal payments on the long-term debt. Long-term debt is not anticipated to increase in FY 09.

Summary

The Statement of Net Assets shows that, on June 30, 2008, the RACSB had 6.9 times more current assets than current liabilities. In addition, RACSB had long-term debt in the amount of \$3,974,713 and \$18,539,951 in total net assets.

The Statement of Revenues, Expenses and Changes in Net Assets show the net assets of the RACSB increased \$3,033,620 during 2008 as a result of operations.

The Statement of Cash Flows shows that cash increased \$749,685 in 2008.

The financial position of the Rappahannock Area Community Services Board measured in terms of the three basic financial statements presented as of June 30, 2008 is very strong and secure.

- Basic Financial Statements -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

ASSETS	2008	2007
Current Assets:		
Cash and cash equivalents	\$ 11,532,855	\$ 10,783,170
Accounts receivable, less allowance for uncollectibles	1,599,942	1,421,891
Prepaid items	<u>38,159</u>	<u>131,611</u>
Total current assets	\$ 13,170,956	\$ 12,336,672
Restricted Current Assets:		
Client funds	108,070	119,014
Capital Assets:		
Property and equipment, less accumulated depreciation	<u>11,009,803</u>	<u>9,757,820</u>
Total assets	\$ <u>24,288,829</u>	\$ <u>22,213,506</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 702,724	\$ 792,149
Compensated absences	535,475	490,946
Unexpended grant funds and other deferred revenue	427,896	1,181,842
Long-term debt, current portion	<u>154,882</u>	<u>149,983</u>
Total current liabilities	\$ 1,820,977	\$ 2,614,920
Current Liabilities Payable from Restricted Assets:		
Client funds	108,070	119,014
Long-term Liabilities:		
Long-term debt, less current portion	<u>3,819,831</u>	<u>3,973,241</u>
Total liabilities	\$ <u>5,748,878</u>	\$ <u>6,707,175</u>
Net Assets:		
Invested in capital assets, less related debt	\$ 7,035,090	\$ 5,634,596
Unrestricted	<u>11,504,861</u>	<u>9,871,735</u>
Total net assets	\$ <u><u>18,539,951</u></u>	\$ <u><u>15,506,331</u></u>

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

RAPPAHANNOCK AREA 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 Revenue:		
Net patient service revenue	\$ 14,576,969	\$ 12,448,293
Operating Expenses:		
Salaries and benefits	\$ 16,425,794	\$ 14,637,826
Staff development	102,874	156,209
Facilities	1,053,782	907,681
Supplies	757,959	561,496
Travel	537,141	468,798
Contractual and consulting	1,444,243	1,883,416
Depreciation	604,952	510,885
Other	677,034	416,432
Total operating expenses	\$ 21,603,779	\$ 19,542,743
Operating income (loss)	\$ (7,026,810)	\$ (7,094,450)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	\$ 6,209,253	\$ 5,608,981
Federal government	1,602,631	1,581,809
Local governments	940,801	911,290
Other	940,755	880,357
Interest income	503,483	533,707
Interest expense	(135,656)	(136,875)
Gain/loss disposition of capital assets	(837)	16,738
Net nonoperating income (expense)	\$ 10,060,430	\$ 9,396,007
Change in net assets	\$ 3,033,620	\$ 2,301,557
Net assets, beginning of year	15,506,331	13,204,774
Net assets, end of year	\$ 18,539,951	\$ 15,506,331

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

RAPPAHANNOCK AREA 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	\$ 14,398,917	\$ 12,359,755
Payments to suppliers	(4,649,445)	(4,418,877)
Payments to and for employees	(16,300,826)	(14,504,878)
Cash flows provided (used) by operating activities	<u>\$ (6,551,354)</u>	<u>\$ (6,564,000)</u>
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 7,998,739	\$ 8,289,822
Other	939,818	897,095
Cash flows provided (used) by noncapital and related financing activities	<u>\$ 8,938,557</u>	<u>\$ 9,186,917</u>
Cash flows provided (used) by capital and related financing activities:		
Proceeds from sale of property	\$ -	\$ 172,393
Gain/loss on disposition of assets	837	(16,738)
Acquisition of capital assets	(1,857,771)	(1,647,986)
Principal payments on mortgages and loans payable	(148,411)	(144,891)
Interest expense	(135,656)	(136,875)
Cash flows Provided (used) by capital and related financing activities	<u>\$ (2,141,001)</u>	<u>\$ (1,774,097)</u>
Cash flows provided (used) by investing activities:		
Interest income	\$ 503,483	\$ 533,707
Net increase (decrease) in cash and cash equivalents	<u>\$ 749,685</u>	<u>\$ 1,382,527</u>
Cash and cash equivalents, beginning of year	<u>10,783,170</u>	<u>9,400,643</u>
Cash and cash equivalents, end of year	<u><u>\$ 11,532,855</u></u>	<u><u>\$ 10,783,170</u></u>
Reconciliation of operating income (loss) to cash flows provided (used) by operating activities:		
Operating income (loss)	\$ (7,026,810)	\$ (7,094,450)
Adjustments to reconcile excess of revenues over expenses to cash provided (used) by operations:		
Depreciation	604,952	510,885
Changes in assets and liabilities:		
Accounts receivable	(178,052)	(88,538)
Prepaid items	93,452	(107,322)
Accounts payable and accrued expenses	(89,425)	165,091
Compensated absences	44,529	50,334
Cash flows provided (used) by operating activities	<u><u>\$ (6,551,354)</u></u>	<u><u>\$ (6,564,000)</u></u>

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

RAPPAHANNOCK AREA 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 Stafford, King George, Caroline, Spotsylvania and the City of Fredericksburg 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. The Board was established in 1970.

B. Reporting Entity:

For financial reporting purposes, in conformance with the Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations for which it is considered financially accountable.

The Board has no component units which are a 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 (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

E. Enterprise Fund Accounting:

Rappahannock Area 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.

RAPPAHANNOCK AREA 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. 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.

K. Capital Assets:

Capital assets acquired that cost \$1,000 or more are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets 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. The range of estimated useful lives for depreciation of capital assets is as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	3 to 10 years
Equipment and vehicles	4 years

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

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

L. Restricted Assets:

The Board segregates monies held on behalf of third parties and restricted donations which have not yet been totally expended for their intended purposes.

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 pay does vest with the employee and is accrued when earned. Provision for the estimated liability for these compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

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, unless extended, following the end of the fiscal year.
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. Fiscal Agent:

The City of Fredericksburg is the fiscal agent for the Rappahannock Area Community Services Board.

P. Comparative Totals:

Amounts for the prior year are presented for comparative and informational purposes only.

Q. 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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

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 with banks was \$8,006,203 and the bank balances were \$8,753,921.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Board's investment policy substantially mirrors the state statutes.

Custodial Credit Risk (Investments):

The Board's investment policy requires the minimizing of custodial credit risk for its investments.

Credit Risk of Debt Securities:

As described above, the Board's investment policy mirrors the state statutes relating to investments.

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

Rated Debt Investments

Rated Debt Investments Value	Fair Quality Ratings				
	AAA/AAAm	AA	A	A1	Unrated
Virginia Local Government Investment Pool	\$ 1,788,185	\$ -	\$ -	\$ -	\$ -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 2 - Deposits and Investments: (continued)

Concentration of Credit Risk:

The Board’s investment policy regarding the concentration of credit risk requires the investment of funds to be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

The Board had investments at June 30, 2008, with more than 5% of the total in the securities underlying the repurchase agreement with Union Bank and Trust Company. This investment represented 49% of total investments.

Interest Rate Risk:

The Board’s investment policy for interest rate risk requires that securities mature to meet cash requirements for on-going operations and investing primarily in short-term securities, money market mutual funds, or similar investment pools. The following details the Board’s investment in repurchase agreements at June 30, 2008.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10 Years +</u>
Virginia Local Government Investment Pool	\$ 1,788,185	\$ 1,788,185	-	-	-
Repurchase agreements	1,738,062	1,738,062	-	-	-
Total	<u>\$ 3,526,247</u>	<u>\$ 3,526,247</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

External Investment Pools:

The fair value of the positions in the external investment pools (Local Government Investment Pool) is the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury.

Cash and Cash Equivalents:

A summary of cash and cash equivalents follows:

	<u>2008</u>	<u>2007</u>
Unrestricted:		
Cash on hand and petty cash	\$ 405	\$ 405
Cash in banks	8,006,203	8,026,904
Investments	<u>3,526,247</u>	<u>2,755,861</u>
Total	<u>\$ 11,532,855</u>	<u>\$ 10,783,170</u>

The Board serves as the agent for the receipt and disbursement of certain client funds. These amounts are reported as restricted assets on the Statement of Net Assets.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 3 - Accounts Receivable:

At June 30, 2008 the Board had accounts receivable due from the following primary sources:

	<u>2008</u>	<u>2007</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 932,056	\$ 895,085
Direct client and third party	839,093	648,424
Other	<u>621,939</u>	<u>476,198</u>
Total	\$ 2,393,088	\$ 2,019,707
Less: Allowances for uncollectibles	<u>793,146</u>	<u>597,816</u>
Net accounts receivable	<u>\$ 1,599,942</u>	<u>\$ 1,421,891</u>

Note 4 - Capital Assets:

Capital assets consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 1,024,415	\$ 640,709	\$ -	\$ 1,665,124
Construction in progress	<u>879,644</u>	<u>-</u>	<u>836,414</u>	<u>43,230</u>
Total capital assets not being depreciated	<u>\$ 1,904,059</u>	<u>\$ 640,709</u>	<u>\$ 836,414</u>	<u>\$ 1,708,354</u>
Capital assets being depreciated:				
Building and improvements	\$ 8,090,111	\$ 1,798,311	\$ -	\$ 9,888,422
Equipment and vehicles	<u>3,090,471</u>	<u>255,165</u>	<u>20,040</u>	<u>3,325,596</u>
Total capital assets being depreciated	\$ 11,180,582	\$ 2,053,476	\$ 20,040	\$ 13,214,018
Less: Accumulated depreciation	<u>3,326,821</u>	<u>604,952</u>	<u>19,204</u>	<u>3,912,569</u>
Net capital assets being depreciated	<u>\$ 7,853,761</u>	<u>\$ 1,448,524</u>	<u>\$ 836</u>	<u>\$ 9,301,449</u>
Net capital assets	<u>\$ 9,757,820</u>	<u>\$ 2,089,233</u>	<u>\$ 837,250</u>	<u>\$ 11,009,803</u>

Note 5 - Lease Commitments:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to one year.

Total rent expenditures for the years ended June 30, 2008 and 2007 totaled \$206,075 and \$216,811, respectively. Also, see Note 14 for lease transactions with a related organization.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 6 - Claims, Judgments and Compensated Absences:

In accordance with 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 \$535,470 and \$490,946 at June 30, 2008 and 2007, respectively. All of the leave balance is reported as current because the long-term portion is not determinable.

Note 7 - Defined Pension Benefit 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 Agency:	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 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 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/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 statute and approved by the VRS Board of Trustees. The Board's contribution rates for fiscal years ended 2008 and 2007 was 2.36% and for 2006 was 1.5% of the annual covered payroll, respectively.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 7 - Defined Pension Benefit Plan: (continued)

C. Annual Pension Cost:

For fiscal 2008, the Board’s annual pension cost of \$254,657 (does not include the employee share assumed by the Board which was \$539,527) 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
06/30/08	\$ 254,657	100%	\$ -
06/30/07	226,767	100%	-
06/30/06	129,255	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 115.29% funded. The actuarial accrued liability for benefits was \$13,207,624, and the actuarial value of assets was \$15,227,139, resulting in an unfunded actuarial accrued liability (UAAL) of (\$2,019,515). The covered payroll (annual payroll of active employees covered by the plan) was \$10,615,592, and ratio of the UAAL to the covered payroll was -19.02%.

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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 8 - Long-Term Debt:

Changes in Long-Term Debt:

	<u>Mortgages Payable</u>
Balance at July 1, 2007	\$ 4,123,224
Add: Issuances/additions	-
Deduct: Retirements	<u>(148,511)</u>
Balance at June 30, 2008	<u>\$ 3,974,713</u>

Mortgages Payable:

The Board has mortgages payable incurred to purchase office and outpatient treatment facilities. Details of the mortgages are:

	<u>Balance</u>	<u>Current Portion</u>
Union Bank and Trust Company, payable in monthly installments of \$5,840, which includes principal and interest, interest at 3.25% through September 2018, secured by real estate at 600 Jackson Street, Fredericksburg, Virginia	\$ 620,170	\$ 50,670
Union Bank and Trust Company, payable in monthly installments of \$4,396 including principal and interest, interest at 3.25% through November 2018, secured by real estate at 750 Kings Highway, Stafford, Virginia	466,844	38,143
Union Bank and Trust Company, \$2,078,274 facilities revenue bond for the Stafford County clinic, payments of \$9,045 per month, interest at 3.25%, scheduled final maturity is December 1, 2035	1,972,197	45,112
Union Bank and Trust Company, \$964,960 facilities revenue bond for the King George County clinic, payments of \$4,200 per month, interest at 3.25%, scheduled final maturity is December 1, 2035	<u>915,502</u>	<u>20,957</u>
Total	<u>\$ 3,974,713</u>	<u>\$ 154,882</u>

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 8 - Long-Term Debt: (continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 154,882	\$ 126,885
2010	159,991	121,775
2011	165,269	116,497
2012	170,721	111,045
2013	176,353	105,414
2014-2018	972,963	435,869
2019-2023	542,904	307,005
2024-2028	574,173	220,527
2029-2033	675,337	119,363
2034-2036	382,120	16,253
Total	\$ <u>3,974,713</u>	\$ <u>1,680,633</u>

The Board is in compliance with all federal arbitrage regulations.

Note 9 - Deferred Compensation Plan:

The Board provides a deferred compensation plan whereby eligible employees elect to defer a portion of their compensation until some later date. The amount deferred is placed in a contract on behalf of the participant where it is not subject to federal income tax until withdrawn. The Board does not contribute to this plan. The plan assets are not subject to claims of the Board's creditors.

Note 10 - Commitments and Contingencies:

Federal programs in which the Board participates were audited in accordance with the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

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

Construction Commitments:

The Board has committed to constructing a 12 bed community based residence for mentally ill persons, and the renovation of an existing building currently owned by the Board, for use as an 8 bed long-term group home for adults with serious mental illness. These projects are anticipated to be funded from a \$2 million grant which is expected to cover substantially all of the construction and renovation costs.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 11 - Risk Management:

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and director and officer's liability coverage's which have up to \$1,700,000 of coverage limits. Other insurance coverage's for property, workers compensation, crime, dishonesty and related coverage's are purchased from a commercial insurance carrier. Coverage for these items vary from stated property values to \$1,000,000. There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

Note 12 - Contributions from Local Participating Governmental Units:

The participating local governmental units contributed funds for the Board's operations as follows:

	<u>2008</u>	<u>2007</u>
City of Fredericksburg	\$ 221,905	\$ 223,354
County of Spotsylvania	245,905	235,316
County of Stafford	272,079	260,363
County of Caroline	124,237	118,885
County of King George	<u>76,675</u>	<u>73,372</u>
Total	<u>\$ 940,801</u>	<u>\$ 911,290</u>

Note 13 - Net Patient Revenue Sources:

Net patient revenues for 2008 were from the following sources:

	<u>2008</u>	<u>2007</u>
Medicaid	\$ 12,395,600	\$ 10,447,198
Direct client	626,430	657,906
Third-party	611,517	490,522
Comprehensive Services Act	303,177	358,891
Other	<u>640,245</u>	<u>493,776</u>
Total	<u>\$ 14,576,969</u>	<u>\$ 12,448,293</u>

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Note 14 - Transactions with Related Organizations:

The Board has transactions with organizations that have certain members of the Rappahannock Area Community Services Board (RACSB) Board of Directors on the respective organizations' Board of Directors, and the RACSB executive director serves as the president or vice-president of these organizations. These organizations are Rappahannock Community Services, Inc. (RCS), Devon Drive Group Home, Inc., Leeland Road Group Home, Inc., Stonewall Estates Group Home, Inc., Piedmont Drive Group Home, Inc., Igo Road Group Home, Inc., and New Hope Estates Group Home, Inc. The RACSB has determined that these organizations are not component units of the RACSB for financial reporting purposes. The RCS has a fiscal year ending in June and the group homes organizations have fiscal years ending in December. The following schedule details the transactions with these organizations. All transactions are arms-length and have appropriate documentation supporting their relationships with the Board.

	<u>2008</u>	<u>2007</u>
Rappahannock Community Services, Inc.		
Rentals and rent subsidies paid for clients	\$ 91,233	\$ 72,592
Management fees and other receipts received during years 2008 and 2007:		
Devon Drive Group Home, Inc.	1,693	2,257
Leeland Road Group Home, Inc.	3,186	3,186
Stonewall Estates Group Home, Inc.	3,501	3,501
Piedmont Drive Group Home, Inc.	1,788	1,788
Igo Road Group Home, Inc.	3,671	-
New Hope Estates Group Home, Inc.	2,748	-
Rappahannock Community Services, Inc.	27,600	27,600

Note 15 - Post-Employment Benefit:

Board employees who retire after having worked for the Board continuously the last fifteen years or more upon retirement, or who retired because of a line-of-duty disability, have the option of participating in the group health insurance program at their own cost until the age of Medicare eligibility.

The Board will pay the following percentage of premiums of subscriber only coverage for employees 50 years of age or older with the following continuous years of service:

<u>Percentage</u>	<u>Continuous Years of Service</u>
50%	20 to 24
75%	25 to 29
100%	30 years or more

The premium amount paid will be reduced by the amount of the health insurance credit received by the employee from the Virginia Retirement System.

During fiscal year 2008 there was one person covered. Total costs paid by the plan were \$1,210. There were no persons covered or costs paid by the plan in fiscal year 2007.

- Required Supplementary Information -

RAPPAHANNOCK AREA 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	UAAL as a % of Payroll (4)/(6)
			Actuarial Accrued Liability (UAAL)	(3)-(2)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
June 30, 2007	\$ 15,227,139	\$ 13,207,624	\$ (2,019,515)	115.29%	\$ 10,615,592	-19.02%	
June 30, 2006	13,057,267	11,318,752	(1,738,515)	115.36%	9,081,716	-19.14%	
June 30, 2005	11,881,379	9,717,140	(2,164,239)	122.27%	7,986,216	-27.10%	

- Supporting Schedules -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Insurance
At June 30, 2008

Carrier	Type of Coverage	Policy Dates	Policy Number	Limits of Liability			
				Description	Coverage Limits	Premium	
Commonwealth of Virginia Division of Risk Management	Public officials	July 1, 2007 June 30, 2008	G99C90	Per occurrence	\$ 1,000,000		
				Aggregate	Unlimited		
	General Liability/ Professional Liability			Per occurrence	1,000,000		
				Aggregate	Unlimited	\$ 5,790	
	Medical Malpractice			Per occurrence	1,700,000		
				Aggregate	Unlimited	13,284	
	Automobile Bodily injury/ property damage Comprehensive Collision			Per occurrence	1,000,000		
				Per occurrence	ACV		
				Per occurrence	ACV	17,364	
Virginia Municipal League	Commercial property	July 1, 2007 June 30, 2008	VMLPPR000547	Real property & personal property	\$ 11,822,083	\$ 5,000/	
				Valuable papers	900,000	25,000	
				Scheduled equipment	214,000	\$ 41,391	
	Boiler and machinery			Direct damage	1,000,000	Various	
				Business income	100,000	Various	977
	Fidelity/Crime			Employee dishonesty	1,000,000	5,000	
				Forgery or alteration	1,000,000	5,000	
				Money and securities	25,000	500	2,485
	Electronic data processing			Hardware	1,550,000	500	
				Software	30,000	500	
				Extra expense	30,000	500	Included
Virginia Association of Counties	Workers Compensation	July 1, 2007 June 30, 2008	VA-RA-075A-01	Each accident	1,000,000	300	
				Disease	1,000,000	300	\$ 74,344

- Other Information -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Client Statistics
Last Ten Fiscal Years

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Unduplicated Clients Served										
Mental Health	5,032	4,401	3,802	3,155	3,277	3,196	3,210	3,521	3,294	3,386
Mental Retardation	1,146	1,121	1,029	945	907	873	829	800	758	755
Substance Abuse	2,767	2,571	2,317	2,084	2,685	2,197	2,486	2,313	2,405	2,642
Mental Health										
Residential Client Days	11,811	5,845	5,599	5,723	6,814	6,978	7,943	7,164	6,731	3,490
Mental Retardation										
Residential Client Days										
Intensive	14,470	12,123	10,877	10,684	9,346	9,895	9,696	9,532	6,936	6,394
Supervised	9,936	9,717	7,326	6,161	6,148	6,117	6,493	7,015	7,582	6,759

- 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
Rappahannock Area Community Services Board
Fredericksburg, Virginia

We have audited the financial statements of the Rappahannock Area Community Services Board, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 21, 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 the Rappahannock Area Community Services Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rappahannock Area Community Services Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rappahannock Area Community Service 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 indentify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rappahannock Area 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*.

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
December 21, 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
Rappahannock Area Community Services Board
Fredericksburg, Virginia

Compliance

We have audited the compliance of Rappahannock Area 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. Rappahannock Area 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 Rappahannock Area Community Services Board's management. Our responsibility is to express an opinion on Rappahannock Area 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 Rappahannock Area 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 Rappahannock Area Community Services Board's compliance with those requirements.

In our opinion, Rappahannock Area 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 Rappahannock Area 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 Rappahannock Area 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 Rappahannock Area 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
December 21, 2008

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>		
Pass-Through Payments:		
Virginia Department of Agriculture and Consumer Affairs Food distribution	10.569	\$ <u>64,546</u>
<u>Department of Transportation</u>		
Pass-Through Payments:		
Virginia Department of Highway and Rail Transportation Capital Assistance Program for Non-Urbanized Areas	20.513	\$ <u>140,814</u>
<u>Department of Health and Human Services</u>		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
PATH	93.150	\$ 33,565
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,878
Child Care Block Grant	93.575	103
Mental Health Block Grant	93.958	70,120
Substance Abuse Prevention and Treatment Block Grant	93.959	<u>1,005,166</u>
Total Department of Health and Human Services		\$ <u>1,110,832</u>
<u>Department of Education</u>		
Pass-Through Payments:		
Virginia Department of Education:		
Early Intervention - Part C	84.181	\$ <u>427,253</u>
Total expenditures of federal awards		\$ <u><u>1,743,445</u></u>

This schedule is presented on the accrual basis of accounting.

RAPPAHANNOCK AREA 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
84.181	Early Intervention Part C

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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

There were no items reported.