

RICHMOND BEHAVIORAL HEALTH AUTHORITY
A Component Unit of the City of Richmond, Virginia
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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BOARD OF DIRECTORS

Margaret N. Crowe, Chair

Francis M. Christian, Ph.D., Vice Chair

Wayne Blanks

Sandra Fowler-Jones

Linda K. Carr

Samuel F. Lillard

Tracey L. Causey

William C. Mims

Andrew C. Epps, III

Napoleon Peoples, Ph.D.

Marilyn E. Erickson, Ph.D.

Rose-Stith-Singleton, M. Ed.

PRINCIPAL MANAGEMENT TEAM

John P. Lindstrom, Ph.D.

Interim Executive Director

Elizabeth A. Rafferty

Director of Mental Health Services

John P. Lindstrom, Ph.D.

Director of Assessment, Emergency & Medical Services

James C. May, Ph.D

Director of Substance Abuse Services

Charles Story, III

Human Resources Manager

Michael Joseph

Director of Administration/Chief Financial Officer

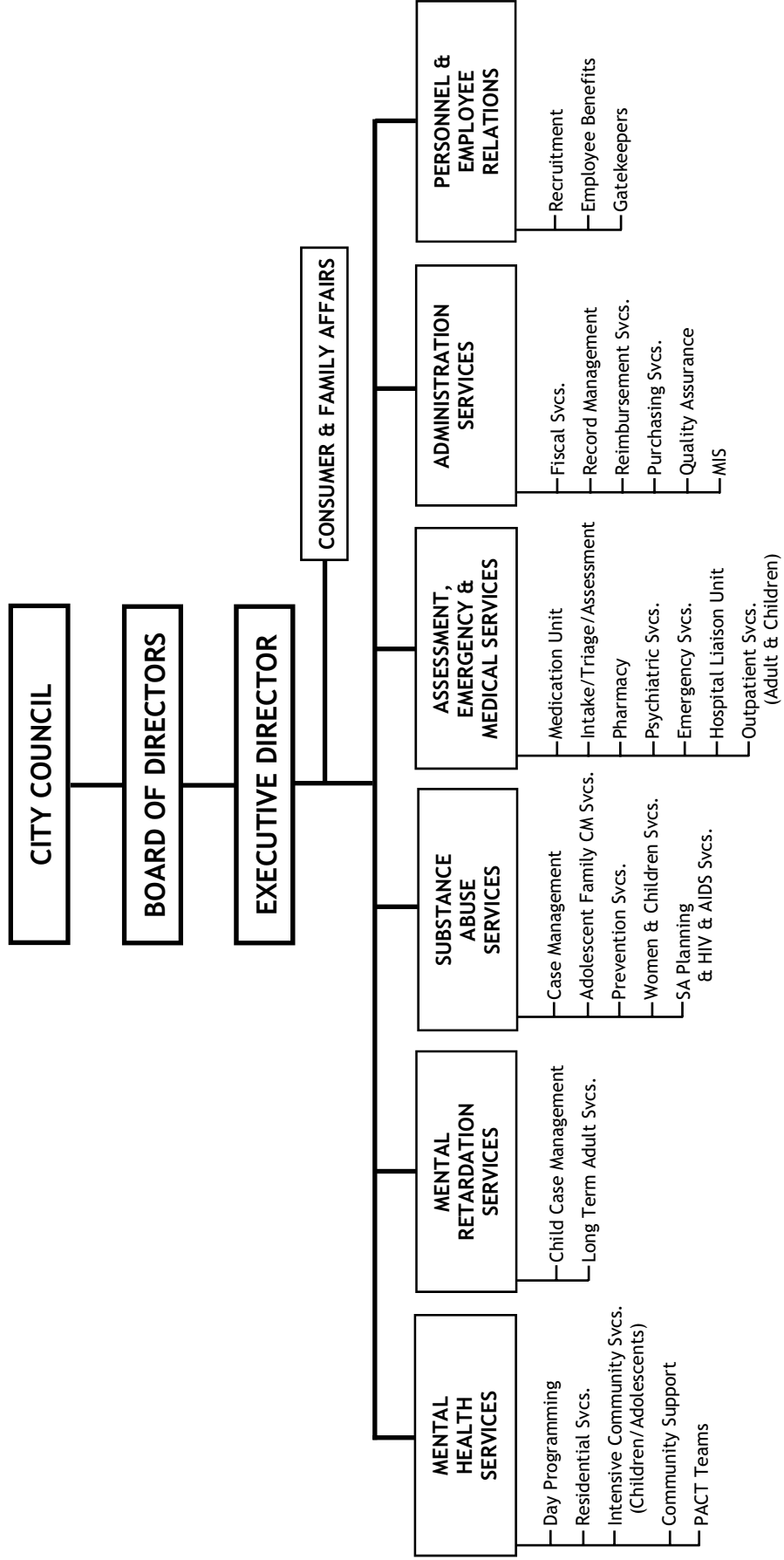
Bonita B. Bell, LCSW

Director of Mental Retardation Services

Gale Price

Director of Standards & Quality

ORGANIZATIONAL CHART RICHMOND BEHAVIORAL HEALTH AUTHORITY



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

**TO THE BOARD OF DIRECTORS
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA**

We have audited the accompanying statement of net assets of Richmond Behavioral Health Authority (A component unit of the City of Richmond, Virginia), 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, as listed in the table of contents. These financial statements are the responsibility of the Richmond Behavioral Health Authority'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 Authority's 2007 financial statements, and in our report dated November 19, 2007, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *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 the 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 Richmond Behavioral Health Authority, 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 November 5, 2008, on our consideration of the Richmond Behavioral Health Authority'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 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 Richmond Behavioral Health Authority, basic financial statements. The other supplementary information is presented for purposes of additional information and is 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The other client statistical 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 express no opinion on it.

Robinson, Jarner, Cox Associates

Charlottesville, Virginia
November 5, 2008

**Management Discussion and Analysis
Year Ending June 30, 2008**

Our discussion and analysis of the financial performance of the Richmond behavioral health Authority (RBHA) provides an overview of the RBHA's financial activities for the fiscal year ended June 30, 2008. Please read this information in conjunction with the RBHA's financial statements.

GENERAL COMMENTS ON FISCAL YEAR 2008

The fiscal year ending June 30, 2008 was a very successful one for the Richmond Behavioral Health Authority (RBHA). During the year, Nonoperating Income, consisting of government grants and appropriations, held steady while Fee Revenue grew by 11%. The Fee Revenue earned by all units was strong in FY 2008 highlighted, again, by significant gains in the Mental Health Day Treatment Program.

Because Operating Expenses stayed within budgeted limits, this increase in Operating Revenue translated directly into a significantly higher cash balance. During FY 2008, Cash increased 42% to \$8,125,567. (This also provided for an increase of \$2,451,732 in Unrestricted Net Assets.) Liabilities, meanwhile, fell 13%. These Asset increases coupled with a decline in Liabilities are evidence of the strong fiscal performance of RBHA in FY 2008.

During FY 2008, the Richmond Behavioral Health Authority continued to serve as the fiscal agent for the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services Health Planning District IV Reinvestment, Acute Care and Transformation programs. Broadly, these programs are intended to keep people out of an institutional setting and in a community based setting.

The amount of net funds not expended for regional purposes in a given year is held by the Richmond Behavioral Health Authority. On the Statement of Net Assets, this is identified as Amount Held for Others. This liability fell 30% in FY 2008 as Regional programs grew.

As noted last year, the Board of Directors set aside an amount up to \$1M for the purchase and installation of new operating software. The process of acquiring that software began in FY 2008 with the selection of the product and its initial installation to be complete in FY 2009.

At the end of FY 2008, the Board of Directors selected a new Chief Executive Officer. Mr. Wilson S. Washington, Jr. comes to RBHA after serving for twenty four years in the United States Navy followed by seven years in the health care industry. Most recently, Mr. Washington served as Vice President of Community Health Care of South Florida. In that capacity, he was in charge of their Behavioral Health Care Center. Mr. Washington's tenure will begin in FY 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

RBHA presents three basic financial statements. 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.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Statement of Net Assets, which reflects RBHA's assets in relation to its debts to its suppliers, employees and other creditors. The excess of our assets over liabilities is our equity, or net assets.

Information regarding the results of our operation during the year 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.

Our Statement of Cash Flows discloses the flow of cash resources into and out of RBHA during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property, etc.).

**Management Discussion and Analysis
Year Ending June 30, 2008**

(Continued)

FINANCIAL SUMMARY

Financial Position. A Summary of the Statement of Net Assets for the Richmond Behavioral Health Authority for 2008, 2007 and 2006 is presented below:

Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 10,632,351	\$ 8,738,704	\$ 6,000,910
Property and equipment	<u>1,078,468</u>	<u>920,540</u>	<u>1,051,352</u>
Total assets	<u>\$ 11,710,819</u>	<u>\$ 9,659,244</u>	<u>\$ 7,052,262</u>
Current liabilities	\$ 2,916,387	\$ 3,561,449	\$ 2,994,931
Long-term liabilities	<u>951,343</u>	<u>864,366</u>	<u>1,045,695</u>
Total liabilities	<u>\$ 3,867,730</u>	<u>\$ 4,425,815</u>	<u>\$ 4,040,626</u>
Net Assets:			
Invested in capital assets	\$ 1,078,468	\$ 920,540	\$ 1,051,352
Unrestricted	<u>6,764,621</u>	<u>4,312,889</u>	<u>1,960,284</u>
Total net assets	<u>\$ 7,843,089</u>	<u>\$ 5,233,429</u>	<u>\$ 3,011,636</u>
Total net assets and liabilities	<u>\$ 11,710,819</u>	<u>\$ 9,659,244</u>	<u>\$ 7,052,262</u>

During FY 2008, Current Assets rose 22%. The components of Current Assets are Cash, Accounts Receivable and Prepaid Items. Cash increased 42% while Accounts Receivable fell 19%. Prepaid Items rose to \$139,040 from \$91,316. The increase in Cash was due to increased Revenue (see below) while the decline in Accounts Receivable was the result of successful efforts to increase timely collections.

The Capital Assets owned by RBHA consist of leasehold improvements, computer equipment, furniture and vehicles. Capital Assets rose 17% in FY 2008.

Current Liabilities fell 18% in FY 2008. Accounts Payable fell slightly (7%) and Deferred Revenue stayed constant. Amounts held for Others, however, fell nearly 30%. These are the funds which RBHA holds in trust for Regional programs. During FY 2008, regional programmers increased their ability to fully expend allocated funds.

Long Term Liabilities consist entirely of Employee Accrued Leave. That liability rose 10% in FY 2008.

Net Assets include Capital Assets and Unrestricted Assets. As described above, Capital Assets rose 17% in FY 2008. Unrestricted Assets rose a very healthy 56% in FY 2008.

**Management Discussion and Analysis
Year Ending June 30, 2008**

(Continued)

FINANCIAL SUMMARY: (CONTINUED)

The financial condition of the Richmond Behavioral Health Authority as indicated by the Statement of Net Assets continued to be strong and secure in FY 2008. The quick ratio (current assets/current liabilities) was 3.65:1 as of June 30, 2008. This is a nearly 50% improvement from the quick ratio of June 30, 2007. This indicates that there are more than three times the Current Assets needed to meet Current Liabilities. Of equal importance, Current Assets are growing faster than Current Liabilities. In addition there is a total absence of long-term debt and unrestricted net assets continued to exhibit a strong increase.

Change in Net Assets. A summary of the Richmond Behavioral Health Authority's Statement of Revenues, Expenses and Changes in Net Assets for FY 2008, 2007 and 2006 is presently below:

**Condensed Statement of Revenues, Expenses
and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating income	\$ 21,795,735	\$ 19,553,559	\$ 17,704,694
Operating expenses	<u>36,003,165</u>	<u>34,418,072</u>	<u>33,935,102</u>
Operating income	\$ (14,207,430)	\$ (14,864,513)	\$ (16,230,408)
Net nonoperating income	<u>16,817,090</u>	<u>17,086,306</u>	<u>16,910,373</u>
Changes in net assets	<u>\$ 2,609,660</u>	<u>\$ 2,221,793</u>	<u>\$ 679,965</u>

Operating revenue is defined as the amount of revenue received from providing patient services. The vast majority of these funds are received from Medicaid. During FY 2008, Operating Revenue grew more than 11%. This was due largely to the addition of three schools to the Day Treatment Program.

Operating Expenses represent the direct expenses of operating the Authority. They consist of 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.

During FY 2008, Operating Expenses increased 4.6%. This is largely the result of a 12% rise in Salaries and Benefits. This increase is partially due to the salary adjustment effective July 1, 2007 and to the increase in personnel needed to staff the expanded Day Treatment Programs.

Nonoperating Income represents income received as appropriations or grants. In FY 2008, State appropriations constituted 56% of the nonoperating income despite declining by approximately 2%. Grants from the Federal Government constituted 28% of the nonoperating income, the same percentage as FY 2007. City appropriations, meanwhile, rose over 12% to comprise nearly 11% of the total nonoperating income.

**Management Discussion and Analysis
Year Ending June 30, 2008**

(Continued)

FINANCIAL SUMMARY: (CONTINUED)

During FY 2008, there was a positive change of 17% in Net Assets. This occurred because the increase in Operating Revenue exceeded the slight decline in Nonoperating income and the increase in Operating Expenses.

Cash Flows. Condensed Statements of Cash Flows for FY 2008, 2007 and 2006 are presented below:

Condensed Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows provided (used) by operating activities	\$ (13,962,621)	\$ (14,136,769)	\$ (16,296,649)
Cash flows provided (used) by non-capital activities	16,612,809	16,865,913	16,819,097
Cash flows provided (used) by capital activities	(439,087)	(154,000)	(296,352)
Cash flows provided (used) by investing activities	<u>204,281</u>	<u>220,394</u>	<u>95,559</u>
Net increase (decrease) in cash	\$ 2,415,382	\$ 2,795,538	\$ 321,655
Cash - beginning of year	<u>5,710,185</u>	<u>2,914,647</u>	<u>2,592,992</u>
Cash - end of year	<u>\$ 8,125,567</u>	<u>\$ 5,710,185</u>	<u>\$ 2,914,647</u>

Cash Flows From Operating Activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Assets to cash produced (used) 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 Used by Operating Activities is made up of Receipts from Customers, Payments to Suppliers and Payments to and from Employees. In FY 2008, Receipts increased nearly 11%. This increase was offset by increases in both Payments to Suppliers and Payments to and from Employees. The Net Cash Flows Used by Operating Activities, therefore, declined slightly (1%).

Cash Flows Provided by Non-Capital Activities are primarily Government grants. In FY 2008, this also declined slightly (1%). Capital Assets, meanwhile, grew as Furniture, Computers, Vehicles and Leasehold Improvements were purchased (Please see Note 5 for a complete listing of Capital Assets). Interest Earned was \$204,281.

The net effect of these changes resulted in cash increasing by more than \$2.4M. This followed an increase of nearly \$2.8M in FY 2007. RBHA's successful financial operation has produced a healthy cash balance of \$8,125,567.

**Management Discussion and Analysis
Year Ending June 30, 2008**

(Continued)

FINANCIAL SUMMARY: (CONTINUED)

Capital Asset and Debt Administration

Capital Assets

At the end of FY 2008, the Richmond Behavioral Health Authority had \$1,078,468 in Net Capital Assets comprised of \$2,655,571 in Assets before Depreciation less \$1,577,103 in accumulated depreciation. (Please see Note 5 for a complete listing of Capital Assets.) Of the total Capital Assets before Depreciation, Furniture and Equipment comprise nearly 5%, Computers are 10%, Vehicles are 66% and Leasehold Improvements are 19%.

The amount of Capital Assets purchases in FY 2007 was \$154,000 and \$439,087 in FY 2008. Because of the projected purchase of a new software system in FY 2009, Capital Assets purchases are expected to increase significantly.

Long-Term Debt

As stated in Note 11, the Richmond Behavioral Health Authority has a Line of Credit agreement with BB&T Bank in the amount of \$1,500,000. That Line of credit was not used in FY 2008 and is not expected to be used in FY 2009.

Summary

The Statement of Net Assets shows that on June 30, 2008 the Richmond Behavioral Health Authority had 3.65 times more Current Assets than Current Liabilities. In addition, RBHA had no long-term debt and \$7,843,089 in Total Assets. Of particular note is the 56% increase in Unrestricted Assets in FY 2008 and the lack of long-term debt.

The Statement of Revenues, Expenses and Changes in Net Assets shows that the Net Assets of RBHA grew by \$2,609,660. This increase was largely the result of an 11% rise in Fee Revenue.

The Statement of Cash Flows shows that cash and cash equivalents increased \$2,415,282 in FY 2008. This indicates that the vast majority of the additional Fee Revenue earned in FY 2008 was added to the cash balance and not spent on non-budgeted items.

As was the case in FY 2007, the financial position of the Richmond Behavioral Health Authority was strengthened in FY 2008. As stated in the Overview of the Financial Statements above, our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. In FY 2008, our Net Assets rose 50% as Unrestricted Assets increased 56%. Total Liabilities, meanwhile, fell 13%.

The strong liquidity, lack of long-term debt and substantial asset growth show that the financial position of the Richmond behavioral Health Authority continues to be safe and secure.

Basic Financial Statements

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,125,567	\$ 5,710,185
Accounts receivable, less allowance for uncollectibles	2,367,744	2,937,203
Prepaid items	139,040	91,316
Total current assets	\$ 10,632,351	\$ 8,738,704
Capital Assets:		
Property and equipment, less accumulated depreciation	1,078,468	920,540
Total assets	\$ 11,710,819	\$ 9,659,244
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,669,448	\$ 1,799,403
Deferred revenue	105	105
Amounts held for others	1,246,834	1,761,941
Total current liabilities	\$ 2,916,387	\$ 3,561,449
Long-term Liabilities:		
Employee accrued leave	951,343	864,366
Total liabilities	\$ 3,867,730	\$ 4,425,815
Net Assets:		
Invested in capital assets	\$ 1,078,468	\$ 920,540
Unrestricted	6,764,621	4,312,889
Total net assets	\$ 7,843,089	\$ 5,233,429

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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	\$ 21,795,735	\$ 19,553,559
Operating Expenses:		
Salaries and benefits	\$ 22,388,481	\$ 19,975,674
Staff development	278,131	463,864
Occupancy	1,711,830	1,628,144
Supplies	769,765	907,916
Travel	556,612	451,008
Medical and professional services	3,247,642	2,742,589
Direct client support	2,636,296	2,646,977
Payments to contracting agencies	3,261,007	4,520,303
Depreciation	281,159	275,629
Other	872,242	805,968
 Total operating expenses	 \$ 36,003,165	 \$ 34,418,072
Operating income (loss)	\$ (14,207,430)	\$ (14,864,513)
Nonoperating income (expenses):		
Appropriations:		
Commonwealth of Virginia	\$ 9,464,688	\$ 9,690,644
Federal government	4,791,528	4,844,394
City of Richmond	1,835,500	1,635,500
Interest income	204,281	220,394
Other	521,093	704,556
Loss on disposition of capital assets	-	(9,182)
 Net nonoperating income	 \$ 16,817,090	 \$ 17,086,306
Change in net assets	\$ 2,609,660	\$ 2,221,793
Net assets, beginning of year	5,233,429	3,011,636
Net assets, end of year	\$ 7,843,089	\$ 5,233,429

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

	2008	2007
Cash flows provided (used) by operating activities:		
Receipts from customers	\$ 21,656,098	\$ 19,547,919
Payments to suppliers	(13,437,410)	(13,402,446)
Payments to and for employees	(22,181,309)	(20,282,242)
Total cash flows provided (used) by operating activities	<u>\$ (13,962,621)</u>	<u>\$ (14,136,769)</u>
Cash flows provided (used) by noncapital and related financing activities:		
Government grants	\$ 16,800,809	\$ 16,196,951
Other	(188,000)	668,962
Total cash flows provided (used) by noncapital and related financing activities	<u>\$ 16,612,809</u>	<u>\$ 16,865,913</u>
Cash flows provided (used) by capital and related financing activities:		
Purchase of capital assets	\$ (439,087)	\$ (154,000)
Cash flows provided (used) by investing activities:		
Interest income	\$ 204,281	\$ 220,394
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,415,382</u>	<u>\$ 2,795,538</u>
Cash and cash equivalents, beginning of year	<u>5,710,185</u>	<u>2,914,647</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,125,567</u></u>	<u><u>\$ 5,710,185</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (14,207,430)	\$ (14,864,513)
Adjustments to reconcile operating income (loss) to cash provided (used) by operations:		
Depreciation	281,159	275,629
Loss on disposition of capital assets	-	9,182
Changes in assets and liabilities:		
Accounts receivable	569,459	(9,227)
Prepaid items	(47,724)	66,971
Accounts payable and accrued expenses	(129,955)	(33,583)
Deferred revenue	-	(75,380)
Amounts held for others	(515,107)	675,481
Compensated absences	86,977	(181,329)
Cash flows provided (used) by operating activities	<u><u>\$ (13,962,621)</u></u>	<u><u>\$ (14,136,769)</u></u>

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Notes to Financial Statements
As of June 30, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Purpose:

The Richmond Behavioral Health Authority (the Authority) was created on July 1, 1996, to provide behavioral health services to residents of the City of Richmond under applicable sections of the Code of Virginia (1950), as amended. Prior to July 1, 1996, the operations of the Authority were conducted by the City of Richmond's (the City) Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department) and accounted for as a Special Revenue Fund of the City of Richmond. In July 1996, the City passed a resolution creating the Richmond Behavioral Health Authority in accordance with applicable sections of the Code of Virginia (1950), as amended. Pursuant to a transfer agreement between the City and the Authority, the City transferred certain assets and liabilities to the Authority.

B. Reporting Entity:

The Board of Directors of the Authority is appointed by the City of Richmond. The City provides funding to the Authority that satisfies match requirements for state grant funding. The City of Richmond deems the Authority to be a component unit of its financial reporting entity.

C. Enterprise Fund Accounting:

The Richmond Behavioral Health Authority 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 Authority utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

The Authority 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.

D. 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.

E. Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less. The Authority 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.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Cash and Cash Equivalents: (Continued)

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including repurchase agreements) with a maturity of three months or less when purchased to be cash equivalents.

F. Investments:

Investments are reported at fair value.

G. Accounts Receivable - Client Services:

Revenue and related receivables for health care services are recorded at the Authority's full established rates. Amounts receivable from third-party payors for health care services are usually less than the Authority's full established rates. The realizable amounts are generally determined by contractual agreements with the third party payor (e.g. Medicaid). The provision for contractual adjustments (difference between established rates and third-party payor payments) and discounts (difference between established rates and amounts collectible) are deducted from gross accounts receivable to determine accounts receivable - net client services. An allowance for uncollectible accounts is based on specific account analysis and historical data, and totaled \$0 at June 30, 2008 and 2007.

H. Capital Assets:

Capital assets acquired which cost \$5,000 or more are recorded at cost and depreciated. Depreciation is provided over the estimated useful life of each class of depreciable asset ranging from 5 to 20 years and is computed using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift.

I. Compensated Absences:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick pay rate regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

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

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, Accounting for Compensated Absences. Accordingly, the amount of annual leave recognized as expense is the amount earned during the year.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

J. Operating and Nonoperating Revenues and Expenses:

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

K. Net Client Service Revenue:

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

L. Financial Assistance:

The Authority 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 Authority 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 Authority does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

M. Budgetary Accounting:

The Authority 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 Authority was required to submit a Performance Contract to the Department for the 2008 fiscal year. This application contains budgets for core services.
2. Prior to September 1, the Performance Contract is submitted to the City of Richmond for review.
3. The Authority's Performance Reports are filed with the Department during the fiscal year, after the end of the second and fourth quarters. The final quarterly report is generally due by September 30 (unless extended), following the end of the fiscal year.
4. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Authority submits Performance Contract revisions that reflect these changes to the Department.

N. Comparative Totals:

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 2—DEPOSITS AND INVESTMENTS:

Cash and cash equivalents were comprised of the following:

	<u>2008</u>	<u>2007</u>
Petty cash	\$ 500	\$ 500
Demand deposits	7,567,877	5,173,273
Investments	<u>557,190</u>	<u>536,412</u>
Total	<u>\$ 8,125,567</u>	<u>\$ 5,710,185</u>

A. Deposits:

The Authority’s cash deposits are covered by federal depository insurance. Deposits in excess of federal depository insurance limits are insured in accordance with provisions of the Virginia Security for Public Deposits Act. The Act requires financial institutions holding public deposits in excess of amounts covered by federal insurance to pledge collateral in the amount of 50% of excess deposits. The book value of deposits was \$7,567,877 and the bank balances were \$8,762,304 at June 30, 2008.

B. Investments:

The Authority’s investment policies require it to follow state law with regard to the type of investments in which it is authorized to invest its funds. The policies also require the Authority to minimize the risk of loss of capital while maximizing returns as determined by market conditions.

State statutes authorize the Authority 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 following is a summary of the Authority’s investments as of June 30, 2008.

<u>Rated Debt Investments Value</u>	<u>Fair Quality Ratings</u>				
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>A1</u>	<u>Unrated</u>
Goldman-Sachs Government Money Market Mutual Fund	\$ -	\$ -	\$ -	\$ -	<u>\$ 557,190</u>

The Authority does not involuntarily participate in external investment pools.

The Authority does not have any custodial credit risk.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 3—ACCOUNTS RECEIVABLE:

At June 30, 2008 and 2007 the Authority had accounts receivable due from the following primary sources.

	<u>2008</u>	<u>2007</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 1,510,364	\$ 1,515,843
Medicare	53,014	53,214
Direct client and third party	90,770	7,008
City of Richmond - various grants	206,505	624,378
Federal government	-	255,510
Other	507,091	481,250
	<u>2,367,744</u>	<u>2,937,203</u>
Total	\$ 2,367,744	\$ 2,937,203
Less: Allowance for uncollectibles	-	-
Net accounts receivable	<u>\$ 2,367,744</u>	<u>\$ 2,937,203</u>

Other than the amounts due for Medicaid charges and amounts due from the City of Richmond, there are no other individually significant sources of receivables.

NOTE 4—PREPAID ITEMS:

Prepaid items consist primarily of rent and other expenses paid prior to year end which are applicable to the subsequent year.

NOTE 5—CAPITAL ASSETS:

The following details changes in capital assets:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 97,103	\$ 23,015	\$ -	\$ 120,118
Computers	181,828	63,004	-	244,832
Vehicles	1,502,045	275,100	-	1,777,145
Leasehold improvements	435,508	77,968	-	513,476
	<u>2,216,484</u>	<u>439,087</u>	<u>-</u>	<u>2,655,571</u>
Total capital assets being depreciated	\$ 2,216,484	\$ 439,087	\$ -	\$ 2,655,571
Less: Accumulated depreciation	<u>1,295,944</u>	<u>281,159</u>	<u>-</u>	<u>1,577,103</u>
Net capital assets	<u>\$ 920,540</u>	<u>\$ 157,928</u>	<u>\$ -</u>	<u>\$ 1,078,468</u>

Depreciation expense was \$281,159 for 2008 and \$275,629 for 2007.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 6—RELATED PARTIES:

The Authority was created by the City of Richmond on July 1, 1996. During the year ended June 30, 2008, the Authority paid the City of Richmond \$72,934 for routine services including vehicle maintenance, telecommunications, duplicating, and other services. The City of Richmond also contributed \$1,835,500 in local funds during the year ended June 30, 2008 to support the provision of behavioral health services to City residents. The Authority also received pass-through federal and state grants from the City totaling \$420,714 in 2008 and \$520,799 during 2007. Also, as discussed in Note 12 - Retirement Plan, the Authority participates in the City's retirement system and paid contributions to that plan. See Note 12 for details relating to the retirement system.

NOTE 7—CONTRACT AGENCIES:

The Authority has entered in numerous agreements with various nonprofit and other entities to provide specific program services under purchase of service contracts. Net expenses under purchase of service agreements amounted to \$3,214,147 and \$4,520,303 for the years ended June 30, 2008 and 2007, respectively.

NOTE 8—DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue consists of unexpended amounts received from the State.

NOTE 9—CONTINGENCIES:

A. Grants:

The Richmond Behavioral Health Authority operates programs that are typically funded by grants received from federal, state or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor. The Authority believes that the likelihood of disallowance of expenditures and subsequent reimbursement is remote and would not have a material effect on the overall financial position of the Authority.

B. Legal / Litigation:

The Authority may be involved in potential lawsuits arising in the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Authority's financial position.

C. Change in Medicaid Regulations:

Proposed changes in Medicaid regulations relating to the billing for case management services may result in significant future reductions in Medicaid revenues.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 10—OPERATING LEASES:

The Authority leases offices, clinics and apartments for residential programs under various lease agreements. Lease expense for the year ended June 30, 2008, amounted to \$1,370,782 and \$1,283,305 for 2007.

At June 30, 2008, the approximate annual operating lease commitments (exclusive of Consumer Price Index amounts) are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 1,217,724
2010	1,178,810
2011	1,180,797
2012	1,182,834
2013	1,099,336
2014	1,099,336
2015	<u>549,668</u>
Total minimum lease payments	<u>\$ 7,508,505</u>

NOTE 11—LINE OF CREDIT:

The Authority has a \$1,500,000 line of credit agreement with a financial institution. Borrowings are unsecured, payable on demand and pay interest based on the London Inter Bank Offered Rate (LIBOR) plus 2.375% adjusted monthly on the first day of each month. The line of credit commitment has no expiration date. The Authority did not have an outstanding balance under the line of credit at June 30, 2008.

NOTE 12—RETIREMENT PLAN:

A. Plan Description:

The City of Richmond maintains a single-employer, defined benefit and defined contribution pension plan, Richmond Retirement System (RRS) (the Plan), which covers substantially all Authority employees. Prior to the creation of the Authority on July 1, 1996, substantially all employees were City of Richmond employees and pursuant to the Agreement of Transfer, Authority employees continue to be members of the RRS.

The City of Richmond issues a separate report on the plan. A copy of the report may be obtained from the City of Richmond Retirement System.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 12—RETIREMENT PLAN: (CONTINUED)

A. Plan Description: (Continued)

The Plan provides retirement benefits as well as disability benefits. All permanent full time employees must participate in RRS. Each new Authority employee has the option of participating in one of three plans offered by the City - the Defined Benefit Retirement Plan, the Enhanced Defined Benefit Retirement Plan or the Defined Contribution Retirement Plan. This is a one-time irrevocable election. The Defined Benefit Retirement and Defined Contribution Retirement Plans allow no employee contributions. All contributions are funded by the Authority. The Enhanced Defined Benefit Plan requires a 3% contribution by the employee until retirement. All benefits vest after 5 years of credited service. A member is eligible for normal retirement on his normal retirement date. Upon service retirement, a member becomes eligible to receive an annual allowance payable in equal monthly installments. The annual allowance is an amount equal to 1.75% for the Defined Benefit Plan and 2% for the Enhanced Defined Benefit Pension Plan of the member's average final compensation multiplied by the number of years of creditable service, up to 35 years. This supplement ceases at age 65. The Plan permits early retirement.

In the defined plans, employees with 30 years of service may retire at any age with unreduced benefits. Employees may retire at age 55 with 5 or more years of service; however, in this instance the benefit will be reduced by 5-1/2% for each complete month by which retirement precedes the earlier of age 65 or the date on which the employee would have completed 30 years of service.

The Authority's contribution to the defined benefit plans, authorized by the Board of Directors are actuarially determined and consists of current costs and amortization of prior service costs over a 20 - year period. The Authority's contribution to the Defined Contribution Plan is 5% for employees with less than 5 years service, 6% for employees with 5 to 9 years of service, 8% for employees with 10 to 14 years of service, and 10% for employees with 15 years of more of service.

B. Contributions and Funding Policy:

The Authority is required to contribute to the Plan, annually, an amount as determined by the actuary (expressed as a percentage of payroll) equal to the sum of the "normal contribution" and the "accrued liability contribution". The accrued liability contribution is determined as that amount necessary to amortize the unfunded actuarial accrued liability and any increase or decrease in the unfunded actuarial accrued liability in future years due to changes in actuarial assumptions, changes in the Plan provisions (including the granting of cost-of-living increases) or actuarial gains or losses amortized over a period of 20 years with payment. During the years ended June 30, 2008 and 2007, the Authority contributed \$813,378 and \$940,658, respectively, to the Defined Benefit Plans in accordance with contribution requirements determined by an actuarial valuation of the Plan as of July 1, 2004. The contribution rate was 18.70% for 2008 and 16.67% for 2007. The Authority also contributed \$667,669 to the Defined Contribution Plan for fiscal years 2008 and \$542,330 for 2007.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 12—RETIREMENT PLAN: (CONTINUED)

B. Contributions and Funding Policy: (Continued)

The following is a schedule of the Authority's contributions to the Defined Benefit Plan for the fiscal years ended June 30, 2006 through 2008:

<u>Fiscal Year Ending</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
June 30, 2006	\$ 1,251,562	100%
June 30, 2007	940,658	100%
June 30, 2008	813,378	100%

The unfunded accrued liability is determined as the excess, if any, of the actuarial liability determined under the projected unit credit cost method over the actuarial value of assets. This unfunded accrued liability, and any changes in unfunded actuarial accrued liability due to changes in benefit provisions, actuarial gains and losses, and changes in methods and/or assumptions is amortized over a period of 20 years.

C. Actuarial Method and Significant Assumptions:

The actuarial cost method utilized is the projected unit credit actuarial cost method. This method is an acceptable method for determining the annual required contribution in accordance with Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. For purposes of determining contribution rates, the net realized and unrealized appreciation or depreciation in the market value of assets is recognized over a three year period, with the restriction that the actuarial asset value cannot be less than 90% or greater than 110% of the market value of assets. For purposes of determining the Plan's funded status and other required disclosures, assets are valued at market.

Significant actuarial assumptions used in determining the actuarial accrued liability include: (a) a rate of return on the investment of present and future assets of 8.0% per annum compounded annually, (b) projected salary increases ranging from approximately 3.50% to 6.50% per year. There is no cost of living increase assumptions and the assumption that benefits will not increase after retirement.

D. Concentrations:

The Plan does not have investments (other than U. S. Government and agency obligations) in any one organization that represent 5% or more of net assets held in trust for pension benefits.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 12—RETIREMENT PLAN: (CONTINUED)

E. Funded Status:

As of June 30, 2007, the most recent actuarial valuation date available, the plan was 75.51% funded. The actuarial liability for benefits was \$18,780,108 and the actuarial value of assets was \$14,180,580, resulting in an unfunded activated accrued liability (UAAL) of \$4,599,528. The covered payroll (annual payroll of active employees covered by the plan) was \$5,134,613, and ratio of the UAAL to the covered payroll was 89.58%.

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 13—POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:

In addition to the pension benefits described in Note 12, the Authority pays a portion of the cost of health-related insurance benefits to all employees who retire from the Authority. The benefits comprise health-related group insurance policies through which retirees, their spouses, and eligible unmarried dependents can obtain coverage. Retirees totaling 17, their spouses, and eligible unmarried dependents were receiving such benefits at June 30, 2008. The Authority's share of health-related premium contributions for the year ended June 30, 2008 was \$63,936 for 2008 and \$83,391 for 2007. The Authority's share of contributions was charged to expense based on premium cost allocable to the fiscal year period. There were no other changes in the benefit provisions during the fiscal year ended June 30, 2008.

NOTE 14—CLIENT FEES:

Net patient service revenues were from the following sources:

	<u>2008</u>	<u>2007</u>
Medicaid	\$ 19,413,261	\$ 17,728,980
Third party	125,851	112,748
Other	<u>2,256,623</u>	<u>1,711,831</u>
Total	<u>\$ 21,795,735</u>	<u>\$ 19,553,559</u>

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

NOTE 15—RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority participates in a self-insured liability plan sponsored by the state of Virginia for local political subdivisions. The plan provides \$1,000,000 coverage against public official liability claims. The Authority participates in the Virginia Municipal Liability Pool for comprehensive property and casualty coverage, a general liability coverage (claims made), automobile coverage and employer's liability. The Authority also is a member of the Virginia Municipal Group Self Insurance Association and obtains workers compensation coverage for Authority employees. Certain other risks are covered by commercial insurance policies. Management believes the above-described coverage is sufficient to preclude any significant uninsured losses to the Authority. The Authority has had no settlements in excess of insurance coverages in each of the past three years. The Authority's primary risk of loss is anticipated to be limited to any deductibles not covered by the insurance arrangements.

NOTE 16—SURETY BOND INFORMATION:

The Authority is insured under a commercial public officials policy in the amount of \$100,000 that indemnifies the insured against loss of money or property that might result from the fraudulent or dishonest acts of its employees.

NOTE 17—ACUTE CARE AND REINVESTMENT PROGRAMS:

The Authority is the fiscal agent for the various regional programs which are funded by state appropriations. The Authority disburses funds received from the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services for program expenses of the multi-jurisdictional consortium consisting of the Authority and Community Services Boards in the region. A summary of the activity in these funds for 2008 is as follows:

	<u>Balance, Beginning of Year</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Balance, End of Year</u>	<u>Authority Share of Revenues</u>
Reinvestment	\$ 514,337	\$ 3,762,512	\$ (3,965,333)	\$ 311,516	\$ 844,364
Partnership Planning	25,432	-	(11,441)	13,991	-
Acute Care	239,658	3,483,449	(3,448,562)	274,545	-
System Transformation	757,207	1,825,901	(2,425,877)	157,231	272,697
Discharge Assistance Planning	225,307	973,305	(709,061)	489,551	24,000
Total	<u>\$ 1,761,941</u>	<u>\$ 10,045,167</u>	<u>\$ (10,560,274)</u>	<u>\$ 1,246,834</u>	<u>\$ 1,141,061</u>

Unexpended program funds are reported as liabilities as amounts held for others. The amount of unexpended funds at June 30, 2008 and 2007 was \$ 1,246,834 and \$1,761,941, respectively.

Required Supplementary Information

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Schedule of Pension Funding Progress

Authority Information from the City of Richmond, Virginia Retirement System

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as a % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2005	\$ 10,797,152	\$ 16,150,774	\$ 5,353,622	66.85%	\$ 7,928,258	67.53%
June 30, 2006	12,944,653	18,632,574	5,687,921	69.47%	8,105,972	70.17%
June 30, 2007	14,180,580	18,780,108	4,599,528	75.51%	5,134,613	89.58%

Additional information:

Increase (decrease) in pension benefit obligation due to plan assumption changes:

June 30, 2005	\$	-
June 30, 2006		-
June 30, 2007		-

Increase (decrease) in pension benefit obligation due to plan election changes:

June 30, 2007	\$	(1,033,702)
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Increase (decrease) in pension benefit obligation due to COLA:

June 30, 2007	\$	43,327
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Other Supplementary Information

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Insurance
June 30, 2008**

Insurance Carrier	Policy Period	Policy Number	Policy Cost	Insurance Coverage
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 32,816	General and professional liability, including medical malpractice \$1,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 48,713	Automobile liability \$1,000,000 Uninsured Motorists \$25,000/\$50,000/\$20,000 Medical Payments \$10,000
			\$ 13,099	Comprehensive and Collision Actual Cash Value Deductible \$1,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 9,779	Excess liability \$1,000,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 2,935	Scheduled property, equipment, boiler, and machinery 1343073 Extra Expense \$150,000 Electronic Data Processing \$50,000 Earthquake \$1,059,667
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 1,403	Fidelity/crime \$100,000
Virginia Municipal Liability Pool P.O. Box 12164 Richmond, VA 23241	7/1/07- 6/30/08	VMLPGL 000473	\$ 72,225	Workers Compensation \$1,000,000 per accident \$500,000 disease

RICHMOND BEHAVIORAL HEALTH AUTHORITY

Client Statistics

Last Ten Fiscal years
Years Ended June 30,

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Unduplicated Clients Served										
Mental Health	4,029	5,746	4,839	5,114	5,023	5,552	5,993	5,553	8,920	5,303
Mental Retardation	953	1,071	1,085	1,153	1,121	1,214	993	1,083	1,007	907
Substance Abuse	1,538	1,907	1,909	2,135	2,342	3,141	3,658	4,365	4,291	3,714
Mental Health Residential										
Client Days	28,073	31,520	29,377	26,963	28,910	26,630	21,190	25,223	23,280	13,016
Mental Retardation Residential										
Client Days	9,743	10,346	11,596	11,035	12,587	18,449	19,625	16,815	16,899	16,630

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
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA

We have audited the financial statements of the Richmond Behavioral Health Authority (A component unit of the City of Richmond, Virginia), as of and for the year ended June 30, 2008, and have issued our report thereon dated November 5, 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 Richmond Behavioral Health Authority'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 Richmond Behavioral Health Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Richmond Behavioral Health Authority'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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We have also issued a separate letter dated November 5, 2008 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 Authority's management, Board of Directors 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

November 5, 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
RICHMOND BEHAVIORAL HEALTH AUTHORITY
RICHMOND, VIRGINIA

Compliance

We have audited the compliance of the Richmond Behavioral Health Authority (A component unit of the City of Richmond, Virginia) 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 Richmond Behavioral Health Authority'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 Richmond Behavioral Health Authority's management. Our responsibility is to express an opinion on Richmond Behavioral Health Authority'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 Richmond Behavioral Health Authority'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 Richmond Behavioral Health Authority's compliance with those requirements.

In our opinion, the Richmond Behavioral Health Authority 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 Richmond Behavioral Health Authority 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 Richmond Behavioral Health Authority'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 effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Richmond Behavioral Health Authority'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 remote likelihood that material noncompliance with a type of compliance requirement of a federal program will be prevented or detected by the Authority'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 Authority's management, Board of Directors, others within the entity, 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, Janney, Cox Associates

Charlottesville, Virginia
November 5, 2008

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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>Expendi- tures</u>
<u>Department of Health and Human Services</u>		
Direct payments:		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	\$ 199,729
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:		
Projects for Assistance in Transition to Homeless (PATH)	93.150	114,807
Child Care Block Grant	93.575	9,360
Mental Health Block Grant	93.958	477,285
Substance Abuse Prevention and Treatment Block Grant	* 93.959	3,358,331
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	13,341
Virginia Department of Social Services Temporary Assistance to Needy Families		
	93.558	254,711
City of Richmond, Virginia Healthy Start Initiative		
	93.926	<u>155,015</u>
Total Department of Health and Human Services		\$ <u>4,582,579</u>
<u>Department of Justice</u>		
Pass-Through Payments:		
Virginia Department of Criminal Justice Services Mental Health Needs of Juvenile Offenders		
	16.523	<u>12,019</u>
Total Department of Justice		\$ <u>12,019</u>
<u>Department of Housing and Urban Development</u>		
Pass-Through Payments:		
City of Richmond, Virginia Emergency Shelter Grant		
	14.231	\$ <u>85,000</u>
<u>Department of Agriculture</u>		
Direct payments:		
Child & Adult Care Food Program	10.558	\$ <u>111,930</u>
Total expenditures of federal awards		\$ <u><u>4,791,528</u></u>

* Major program

Basis of presentation:

This schedule is presented on the accrual basis of accounting. The information 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.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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?	No
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?	No
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?	No

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.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

Financial Statement Findings

Material Weaknesses:

Finding 2007-1

Finding:

The Human Resources Director was authorized to provide human resource, executive recruiting and placement, and temporary staffing services to other organizations with the intent of generating revenues and contributing to the economic well-being of the Authority. The program (Work Place Solutions, or WPS) commenced operations July 1, 2006.

WPS program and financial activities were solely the responsibility of the human resources director, and attempts to monitor the financial activities of the program by the Authority's finance department were over-ridden by the Authority's executive director. There are numerous instances of undocumented program expenses relating to compensation of personnel who worked in the program, credit card charges and travel expenses.

Cause of Condition:

The Authority's executive director rejected numerous attempts by the Authority's finance department to monitor the WPS financial activities, which included requests for substantiation of documentation of time charged to the program by Authority human resources and payroll personnel, credit card charges and travel expenses. The executive director was to approve all time records charged to the program by Authority personnel. However, the time records did not exist. The executive director also approved all of the program's credit card charges and travel expenses even though there is little or no documentation to support the credit card charges, which include travel expenses.

Effect of Condition:

The accounting for the WPS program and financial activities was compromised by the executive director's over-ride of controls over the financial activities of the program. Questionable transactions relating to certain of the program expenditures may have occurred.

Recommendations:

All Authority programs financial activities should be subject to monitoring by the Authority's finance department. The Authority should also consider implementing policies and procedures whereby complaints regarding improper accounting or suspected fraudulent activities can be reported directly to the Authority's Board of Directors or a committee thereof.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Prior Year's Findings and Questioned Costs
Year Ended June 30, 2008 (Continued)**

Financial Statement Findings (Continued)

Management's Response to Finding:

Corrective actions to prevent the above actions from recurring include the following:

All departments and sections of the Authority will be required to follow all policies and procedures. Exceptions can only be granted in writing by the executive director and those exceptions must be reported to the Chair of the Board of Directors and the Chair of the Finance Committee.

Authority staff will be encouraged to use the City of Richmond Fraud Hotline. In addition, a procedure by which complaints/suggestions can be delivered directly to the Board of Directors will be established with input and direction given by the Finance Committee and the Executive Committee. This procedure will be approved by the full Board of Directors.

The executive director and human resources director who were employed during the period in which the findings occurred are no longer employed by the Authority.

Significant Deficiencies

Finding 2007-2

Finding:

Grant revenues are not consistently monitored to ensure that all grant payments requested are, in fact, received. Approximately \$235,000 of grants receivable were written off in fiscal year 2007.

Cause of Condition:

There appears to be a communications gap between the department responsible for the monitoring of the grant program and the finance department. It appears that a significant reason for the losses is that the grant reimbursement and other requests may not have been filed on a timely basis which resulted in the expiration of funding, or there may have been miscommunications with the grantor agencies.

Effect of Condition:

Grant funds which support the various Authority programs may be lost due to ineffective monitoring of the amounts requested from grantor agencies and the amounts actually received.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

**Schedule of Prior Year's Findings and Questioned Costs
Year Ended June 30, 2008 (Continued)**

Financial Statement Findings (Continued)

Recommendation:

Grant funds should be more closely monitored to ensure that grant funds requested are in fact received.

Management's Response to Finding:

One of the primary causes of the condition is the manner in which some funds are received from the City of Richmond. The funds are received as direct deposits to the Authority bank account and, at times, no back up information is received to identify the source of those funds.

Authority staff will meet with representatives of the City of Richmond's Finance Department in an effort to ensure that accurate information documenting the direct deposit of funds is received by the Authority. The Authority will restructure an accountant position to ensure that all grant reimbursements are billed in a timely manner, entered in to the system as an account receivable, and the receipt of grant funds is properly tracked through the system.

Finding 2007-3

Finding:

Bank balances were not reconciled to the general ledger on a timely basis. The May, 2007 and June, 2007 bank account balances were not reconciled to the general ledger balances until September, 2007.

Cause of Condition:

Staff did not reconcile the bank balances to the general ledger on a timely basis.

Effect of Condition:

Bank transactions may not be properly recorded in the general ledger. The risk of loss of funds is significantly increased when the bank account is not reconciled to the general ledger on a timely basis. Also, the financial transactions as reported in the financial accounting system may not be accurate.

Management's Response to Finding:

During fiscal year 2007 considerable effort was spent repairing problems which affected the ability to reconcile the cash accounts. The May 2007 and June 2007 bank reconciliations were not prepared correctly due to a personnel problem. The person responsible for the bank reconciliation resigned in August 2007 and that person's position was restructured to ensure timely and accurate bank reconciliations.