BROWNEDWARDS
certified public accountants

To the Board of Directors
Central Virginia Community Services Board
Lynchburg, Virginia

We have audited the financial statements of the Central Virginia Community Services Board (the "Board") for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 25, 2011. Professional standards also require that we communicate the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of capital assets, which is based on management's knowledge and judgment, which is based on history.
- Management's estimate of the allowance for doubtful accounts, which is based on historical patient service revenue, historical loss levels, and an analysis of the collectability of individual accounts.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements include those related to capital assets, long-term liabilities, and lease commitments.

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Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not note any adjustments that, in our judgment, have a significant effect on the Board's financial reporting process.

We also evaluated management's estimated allowance for uncollectible accounts. This balance involves a great deal of judgment and the consideration of many factors, and by its nature is not precise. For community service boards this estimate is even less precise than for many organizations – this is true because of the sheer volume of billings that ultimately are uncollectible, the often very long delays in collections, and the frequency of rebillings from one fund source code to another. Cash collection "lookbacks" can be used at most organizations to evaluate receivables outstanding at the end of the prior year; however, that process is imperfect at the Board partly because it is difficult to trace all collections back to specific event dates – especially after an amount has been "rebilled" from one fund source to another.

In the previous year, the allowance was initially calculated using an aging methodology that was then adjusted for results of a cash collection "lookback." In the current year, management used a methodology that is based primarily on the aging of accounts receivable, and arrived at an allowance of approximately $900,000. In our judgment, this allowance <u>may</u> be understated; in our own analysis we applied certain of our own assumptions about receivable agings as well as a cash collection lookback – both of which we acknowledge are imperfect. In our own judgment, we concluded that an allowance balance of an additional $300,000 *might* be appropriate. However, management has concluded that the allowance is materially correct as currently stated, and we have concluded that the possible understatement is not material to the financial statements, in part because of the qualitative nature of the estimate.

In this letter in the prior year we stated that we thought the balance might have been understated by about $200,000; if our judgment was correct then the effect on the current year's change in net assets would be that the change is overstated by $100,000, which again, we and management have concluded is not material.

We again recommend that efforts be made to improve the ability to perform retrospective reviews of the collectability of receivables from past dates. We cannot state with certainty whether it will be possible to reach complete precision with such "lookbacks" – the database tables and software involved is complex. However, the greater the confidence with which management can evaluate the collection experience of the past, the greater their ability to estimate collectability in the future.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Significant Audit Findings (Continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2011, and an example of those representations is attached.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of any accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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This information is intended solely for the use of the Board of Directors and management of Central Virginia Community Services Board, and is not intended to be and should not be used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2011

CENTRAL VIRGINIA
Community Services

ADMINISTRATION
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September 23, 2011

Brown, Edwards & Company, L.L.P.
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Lynchburg, Virginia 24506

We are providing this letter in connection with your audit of the financial statements of Central Virginia Community Services Board as of June 30, 2011, and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the Central Virginia Community Services Board and the changes in financial position and cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 23, 2011, the following representations made to you during your audit.

1) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all required financial information.

2) We have made available to you all –
   a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
   b) Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

5) We believe the effects of uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Those misstatements result from:
   a) We acknowledged in our letter last year that in your judgment, the allowance for uncollectible accounts might have been understated by approximately $200,000. We further acknowledge that in your judgment, the allowance for uncollectible accounts may be understated by approximately $300,000 in the current year. If your judgment is correct in both cases, the effect on the current year's changes in net assets would be that the change is overstated by $100,000. We believe that the amounts presented in the financial statements are materially correct.

6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
   a) Management,
   b) Employees who have significant roles in internal control, or
   c) Others where the fraud could have a material effect on the financial statements.

8) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9) We have a process to track the status of audit findings and recommendations.

10) We have identified to you any previous financial audits, attestation engagements, or other studies related to the audit objectives and whether related recommendations have been implemented.

11) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

12) The Board has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

13) The following, if any, have been properly recorded or disclosed in the financial statements:
   a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
   b) Guarantees, whether written or oral, under which the Board is contingently liable.
   c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

14) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15) There are no –
   a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
   b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
   c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

16) As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management

functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.

17) The Board has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed to you and in Note 6 to the financial statements.

18) The Board has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19) The financial statements properly classify all funds and activities.

20) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

21) Investments, derivative transactions, and land and other real estate held by endowments are properly valued.

22) Provisions for uncollectible receivables have been properly identified and recorded.

23) Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.

24) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

25) We have appropriately disclosed the Board's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

26) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

27) With respect to the schedule of expenditures of federal awards (the other supplementary information):

   a) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards in accordance with accounting principles generally accepted in the United States of America, and we believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the schedule of expenditures of federal awards have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
   b) If the schedule of expenditures of federal awards is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

28) We have evaluated the Board's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.

29) With respect to federal award programs:
   a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* including requirements relating to preparation of the schedule of expenditures of federal awards.

b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

c) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.

e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

h) We have received no requests from a federal agency to audit one or more specific programs as a major program.

i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards.

j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.

r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

t) We have charged costs to federal awards in accordance with applicable cost principles.

u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

v) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

30) We have reviewed the proposed adjusting journal entries and understand the nature and impact these entries have on our financial statements.

31) We acknowledge that we have represented to you that there is a net receivable due from DMAS for our ICF operations.

32) We reaffirm the representations made to you on November 9, 2010, in regards to your audit for June 30, 2010.

33) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: ______________________

Title: Chief Executive Officer

Signed: ______________________

Title: Chief Financial Officer

Signed: ______________________

Title: Manager – Financial Planning and Analysis