CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

FINANCIAL REPORT

June 30, 2011

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INTRODUCTORY SECTION

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2011

Board of Directors

Gary Marple, Chair

William Schneider, Vice-Chair

Clyde Clark

William Craft

Stan Goldsmith

Jeff Helgeson

Krystal Hullette

Dana Koeing

Leon Parrish

Parks Snead

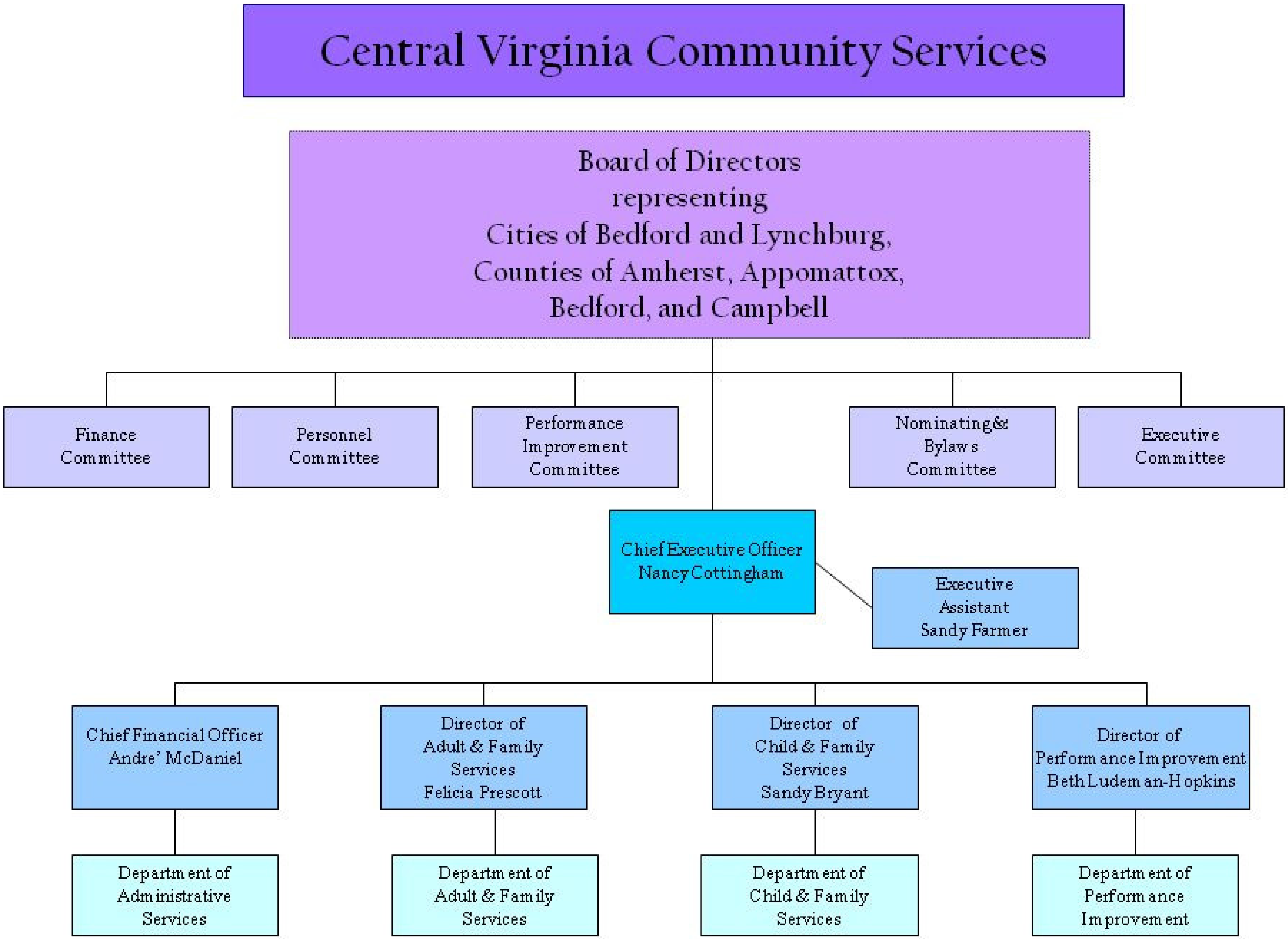
Mary Lou Spiggle

Terry Stelle

Phil Thiesen

Principal Management Team

Nancy Cottingham	Chief Executive Officer
André McDaniel	Chief Financial Officer
Felicia Prescott	Director of Adult and Family Services
Sandy Bryant	Director of Child and Family Services
Elizabeth Ludeman-Hopkins	Director of Performance Improvement


Central Virginia Community Services
Board of Directors representing Cities of Bedford and Lynchburg, Counties of Amherst, Appomattox, Bedford, and Campbell
Finance Committee
Personnel Committee
Performance Improvement Committee
Nominating & Bylaws Committee
Executive Committee
Chief Executive Officer Nancy Cottingham
Executive Assistant Sandy Farmer
Chief Financial Officer Andre' McDaniel
Director of Adult & Family Services Felicia Prescott
Director of Child & Family Services Sandy Bryant
Director of Performance Improvement Beth Ludeman-Hopkins
Department of Administrative Services
Department of Adult & Family Services
Department of Child & Family Services
Department of Performance Improvement

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Central Virginia Community Services Board (the "Board"), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Board's 2010 financial statements on which, in our report dated November 10, 2010, we expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Virginia Community Services Board, as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Board's basic financial statements. The introductory section is presented for purposes of additional analysis 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 also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2011

Central Virginia Community Services Board
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2011

The following Management's Discussion and Analysis (MD&A) of the Central Virginia Community Services Board's (CVCS) financial performance provides an overview of the CVCS financial activities for the fiscal year ended June 30, 2011.

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

OVERVIEW OF FINANCIAL STATEMENTS

The Central Virginia Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the CVCS as of June 30, 2011. 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.

CVCS's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2011. This information is reported on the Statement of Net Assets which reflects CVCS' assets in relation to its debts to its suppliers, employees and other creditors. The excess of assets over liabilities is indicated by the value of net assets.

Information regarding the results of CVCS's operations during fiscal year 2011 is reported in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement shows how much overall net assets increased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of CVCS during the fiscal year 2011 (from operations, contributions, and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

Financial Summary

Financial Position: A summary of CVCS's Statement of Net Assets as of June 30, 2011 and 2010 is presented below:

	2011	2010
Current Assets	$ 8,153,988	$ 7,968,016
Current Restricted Assets	56,992	61,466
Capital Assets	6,029,552	5,912,512
Other Assets	390,097	393,989
Total Assets	**$ 14,630,629**	**$ 14,335,983**
Current Liabilities	3,628,008	3,753,012
Current Liabilities payable from restricted assets	56,992	61,466
Long Term Liabilities	3,212,263	3,425,062
Total Liabilities	**$ 6,897,263**	**$ 7,239,540**
Net Assets:		
Invested in Capital Assets	2,584,614	2,256,325
Unrestricted	5,148,752	4,840,118
Total Net Assets	**$ 7,733,366**	**$ 7,096,443**

Financial Summary (continued)

The financial position of CVCS is reflected by the current ratio (current assets / current liabilities) and was calculated to be 2.2 as of June 30, 2011, and on June 30, 2010, the current ratio was 2.1. This increase in liquidity is mainly the result of an increase in cash and cash equivalents. The current ratio is an indicator of the organization's ability to cover current obligations and being able to cover current obligations 2.2 times is considered strong.

Change in Net Assets: A summary of Central Virginia Community Services' Statement of Revenues, Expenses, and Changes in Net Assets for fiscal years 2011 and 2010 is presented below:

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2010	2010
Operating Revenues:		
Net Client Service Revenue	$28,979,693	$27,969,114
Operating Expenses	37,351,047	35,337,778
Operating Income (loss)	(8,371,354)	(7,368,664)
Non-operating revenues - net	9,008,277	8,790,759
Change in net assets	636,923	1,422,095

Operating Revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 89% in FY2011, were received from Medicaid (please see Note 10). During fiscal year 2011, Operating Revenue rose by 4% due to growth in client services provided.

Operating Expenses are the sum of direct and indirect costs of operating CVCS. These include salaries and benefits, occupancy, payments to contracting entities, depreciation, etc. Please see the full Statement of Revenues, Expenses, and Changes in Net Assets for a complete breakdown of these expenditures for fiscal years 2011 and 2010. During fiscal year 2011, Operating Expenses increased by 6%. The fiscal year 2011 increase is mainly attributed to higher personnel, health care and client pharmacy medication costs.

Net non-operating revenue is comprised of income received as appropriations or grants, miscellaneous income and net of interest expenses. Appropriations from Federal and State sources amounted to 91% for fiscal year 2011 and 90% for fiscal year 2010 of the net non-operating revenue. Appropriations from local governments constituted 9% for fiscal year 2011 and 10% for fiscal year 2010. The remaining non-operating revenue consists of other income, interest income and expense. Net non-operating revenue increased by 3% in fiscal year 2011.

There was an increase in net assets by $636,923 in fiscal year 2011 and an increase of $1,422,095 in fiscal year 2010.

Cash flows: A summary of CVCS' Statement of Cash Flows for 2011 and 2010 is presented below.

Condensed Statement of Cash Flows

	2011	2010
Cash flows from (to) operating activities	$ (6,605,145)	$ (8,055,037)
Cash flows from non-capital related financing activities	8,849,451	9,189,286
Cash flows from (to) capital related financing activities	(921,521)	(553,894)
Cash flows from investing activities	6,368	13,060
Net cash increase (decrease)	1,329,153	593,415
Cash and cash equivalents, beginning of year	3,889,159	3,295,744
Cash and cash equivalents, end of year	5,218,312	3,889,159

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

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Net Assets discussion above). Cash flows from capital activities are comprised of the acquisition of capital assets by CVCS in fiscal years 2011 and 2010, principal payments on mortgages and loans payable (please see Notes 5 and 6). Cash flows from investing activities are comprised of interest income.

There was a net increase in cash and cash equivalents of $1,329,153 during fiscal year 2011 and a net increase of $593,415 in fiscal year 2010.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2011, CVCS had $6,029,552 in Net Capital Assets. This is comprised of $10,824,483 in capital assets less $4,794,931 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 57%, furniture and equipment constitutes 28%, vehicles constitute 8% and land and construction in progress constitutes 7%.

Long Term Debt

Long term obligations as of June 30, 2011 were $3,444,937 (please see Note 6). This is a decrease of $211,250 due to principal payments on long term debt.

Financial Highlights

Based on positive operating results, CVCS' net assets increased by $636,923 during the fiscal year.

During the fiscal year ended June 30, 2011, CVCS had operating expenses of $37,499,297 compared with $35,511,350 the previous year. These figures included interest expense on mortgages and capital leases of $148,250 and $173,572 in 2011 and 2010 respectively.

During the fiscal year ended June 30, 2011, CVCS had net client service revenues of $28,979,693 compared with $27,969,114 for the previous year. This represents an increase of $1,010,579 or 3.6% over fiscal year 2010.

During the fiscal year ended June 30, 2011, CVCS had net revenues from local, state and federal appropriations/grants of $9,045,478 compared with $8,756,850 in fiscal year 2010, an increase of $288,628 or 3.3% more than fiscal year 2010.

During the fiscal year ended June 30, 2011, CVCS had total revenues of $38,136,220 including all sources as compared with $36,933,445 the previous year, an increase of $1,202,775 or 3.3% increase in total revenue.

During the year ended June 30, 2011, operating expenses were $636,923 less than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were $1,422,095 lower than operating revenues.

Operating expenses were $236,285 less than the budget for fiscal year ended June 30, 2011. Revenues were $358,798 lower than budget. The net variance from budget was unfavorable by $122,513.

Using This Annual Report

This annual report consists of a series of financial statements that include:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. This new reporting model has been adopted according to guidelines of GASB No. 34 (Governmental Accounting Standards Board) and was first implemented at the fiscal year end June 30, 2002.

BASIC FINANCIAL STATEMENTS

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	**2011**	**(For Comparative Purposes Only) 2010**
Current assets		
Cash and cash equivalents (Note 2)	$ 4,839,439	$ 3,505,933
Accounts receivable, net (Note 3)	3,074,348	4,139,483
Due from other governments (Note 4)	134,309	132,396
Prepaid expenses and other	105,892	190,204
Cash and cash equivalents, restricted for clients (Note 2)	56,992	61,466
Total current assets	8,210,980	8,029,482
Noncurrent assets		
Cash and cash equivalents, restricted for debt reserves (Note 2)	321,881	321,760
Bond issuance costs	68,216	72,229
Capital assets, net (Note 5)	6,029,552	5,912,512
Total noncurrent assets	6,419,649	6,306,501
Total assets	14,630,629	14,335,983
LIABILITIES		
Current liabilities		
Accounts payable	835,597	1,010,360
Accrued payroll and related liabilities	371,756	88,466
Accrued interest	53,739	56,589
Amounts held for clients, payable from restricted assets	56,992	61,466
Deferred revenues (Note 7)	334,804	626,599
Current portion of long-term liabilities (Note 6)	2,032,112	1,970,998
Total current liabilities	3,685,000	3,814,478
Long-term liabilities (Note 6)	3,212,263	3,425,062
Total liabilities	6,897,263	7,239,540
COMMITMENTS AND CONTINGENCIES (Notes 8, 12, and 15)	-	-
NET ASSETS		
Invested in capital assets, net of related debt	2,584,614	2,256,325
Unrestricted	5,148,752	4,840,118
Total net assets	$ 7,733,366	$ 7,096,443

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
OPERATING REVENUES		
Net client service revenue (Note 10)	$ 28,979,693	$ 27,969,114
OPERATING EXPENSES		
Salaries and benefits	29,954,696	28,131,571
Staff development and recruitment	186,993	207,876
Facility	774,023	813,114
Supplies	1,562,321	1,062,461
Travel	337,648	230,869
Contractual and professional services	2,264,115	2,400,919
Leases	1,471,209	1,475,169
Insurance	189,223	302,084
Depreciation and amortization	453,145	555,298
Other	157,674	158,417
Total operating expenses	37,351,047	35,337,778
Operating loss	(8,371,354)	(7,368,664)
Commonwealth of Virginia grants	6,116,100	5,448,150
Federal grants	2,091,861	2,449,981
Contributions from participating local governments (Note 11)	837,517	858,719
Interest income	6,368	13,060
Interest expense	(148,250)	(173,572)
Other income	97,681	194,421
Gain on sale of capital assets	7,000	-
Net nonoperating revenues (expenses)	9,008,277	8,790,759
Change in net assets	636,923	1,422,095
NET ASSETS AT JULY 1	7,096,443	5,674,348
NET ASSETS AT JUNE 30	$ 7,733,366	$ 7,096,443

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 30,044,828	$ 26,682,678
Payments to suppliers	(7,033,657)	(6,258,152)
Payments to employees	(29,611,842)	(28,428,733)
Other expenses	(4,474)	(50,830)
Net cash used in operating activities	(6,605,145)	(8,055,037)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, State, and Federal Governments	8,751,770	9,014,187
Other receipts	97,681	175,099
Net cash provided by non-capital financing activities	8,849,451	9,189,286
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(566,172)	(223,202)
Proceeds from the sale of capital assets	7,000	23,264
Principal paid on debt	(211,250)	(180,384)
Interest paid on debt	(151,099)	(173,572)
Net cash used in capital and related financing activities	(921,521)	(553,894)
INVESTING ACTIVITIES		
Interest received	6,368	13,060
Net cash provided by investing activities	6,368	13,060
Net increase in cash and cash equivalents	1,329,153	593,415
CASH AND CASH EQUIVALENTS		
Beginning at July 1	3,889,159	3,295,744
Ending at June 30	$ 5,218,312	$ 3,889,159
RECONCILIATION TO STATEMENT OF NET ASSETS		
Cash and cash equivalents	$ 4,839,439	$ 3,505,933
Cash and cash equivalents, restricted for clients	56,992	61,466
Cash and cash equivalents, restricted for debt reserves	321,881	321,760
	$ 5,218,312	$ 3,889,159

(Continued)

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (8,371,354)	$ (7,368,664)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	453,145	555,298
Decrease (increase) in:		
Accounts receivable, net	1,065,135	(1,286,436)
Prepaid expenses and other	84,312	77,995
Increase (decrease) in:		
Accounts payable	(174,763)	314,762
Accrued payroll and related liabilities	283,290	(246,991)
Compensated absences	59,564	(50,171)
Amounts held for clients, payable from restricted assets	(4,474)	(50,830)
Net cash used in operating activities	$ (6,605,145)	$ (8,055,037)

The Notes to Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Financial reporting entity:

Central Virginia Community Services Board (the "Board") is a jointly governed entity that operates as an agent for the Counties of Amherst, Appomattox, Bedford, and Campbell, and the Cities of Lynchburg and Bedford in the establishment and operation of community mental health, mental retardation, and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the *Code of Virginia* (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health, mental retardation, and substance abuse services which relate to and are integrated with existing and planned programs. Substantially all of the entity's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the aforementioned localities.

Measurement focus and basis of accounting:

The Board is a governmental health care entity and follows the accounting and reporting practices of the Governmental Accounting Standards Board. The Board's financial statements consist of a single enterprise fund, and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the Board's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Board also has the option of following subsequent private-sector guidance, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are fees collected from clients and the related collections from the various third-party insurers including Medicaid. Operating expenses consist of the direct and indirect costs of fulfilling the programs of the Board. All other revenues and expenses are reported as nonoperating revenues and expenses.

Use of estimates:

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported revenues and expenses. Actual results could differ from those estimates.

The allowance for uncollectible accounts is a significant estimate that involves a great deal of judgment and the consideration of many factors. By nature, this estimate is not precise and requires re-evaluation as the balances, condition and factors surrounding the client accounts receivable fluctuate. Key factors that tend to affect this calculation for the Board are the delays in collection from third parties, the need to rebill to multiple third-party payers, rate adjustments and settlements with third-party payers, and the financial assistance provided to clients based on their ability to pay.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Valuation of receivables:

Receivables are reported net of the estimated allowance for uncollectible accounts. Management estimates this allowance using historical collection data and the aging of accounts receivable.

Net client service revenue:

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

Financial assistance:

The Board is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged varies based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, such amounts are not reported as revenue.

Capital assets:

Capital assets include property and equipment with an initial, individual cost of more than $5,000 ($2,500 for information systems equipment) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not materially add to the value of an asset or its life are expensed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	33 1/3 years
Furniture and equipment	3 to 10 years
Motor vehicles	5 years

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted assets:

The Board segregates funds held on behalf of clients and for debt service reserves.

Deferred Revenue:

Deferred revenues consist of amounts which have been received, but for which revenue recognition criteria have not been met. Revenues will be recognized when expenses are incurred in accordance with the grantor's requirements. If such expenses are not incurred, the funds may revert back to the grantor.

Compensated absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave for employees who have been employed for five years or longer vests up to the lesser of $2,500 or 25% of the sick leave balance. Other sick leave does not vest with the employee and is recorded as an expense when paid. Vacation and certain other compensated absences do vest with the employee. A provision for these vested compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

Note 2. Deposits and Investments

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia.* Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Current Board policy is to automatically invest cash reserves on a daily basis through the use of repurchase agreements with the Board's bank.

(Continued)

Note 2. Deposits and Investments (Continued)

Concentration of credit risk:

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

Interest rate risk:

The Board's investment policy does not address interest rate risk, but at June 30, the Board had no investments other than a money market mutual fund. The Board's deposits and investments consist of the following at June 30:

Deposits and investments:	
Cash on hand	$ 2,300
Deposits	4,937,504
Money market mutual fund	278,508
	$ 5,218,312
Statement of net assets:	
Cash and cash equivalents	$ 4,839,439
Cash and cash equivalents, restricted for clients	56,992
Cash and cash equivalents, restricted for debt reserves	321,881
	$ 5,218,312

Note 3. Accounts Receivable, net

Accounts receivable, net consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$ 1,880,421
Direct client	1,330,994
Third party insurers and other	762,933
	3,974,348
Allowance for uncollectible accounts	(900,000)
	$ 3,074,348

Note 4. Due From Other Governments

Amounts are due from other governments for the reimbursement of expenditures and fees for services provided under various programs and grants, and consist of the following:

Department of Medical Assistance Services – ICF/MR	$ 51,073
Other programs	83,236
	$ 134,309

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 515,280	$ 71,473	$ -	$ 586,753
Construction in progress	5,615	135,532	-	141,147
Capital assets, nondepreciable	520,895	207,005	-	727,900
Capital assets, depreciable				
Building and improvements	5,965,844	243,453	-	6,209,297
Furniture and equipment	3,024,469	29,706	49,165	3,005,010
Vehicles	809,453	86,086	13,263	882,276
Capital assets, depreciable	9,799,766	359,245	62,428	10,096,583
Less accumulated depreciation	4,408,149	449,210	62,428	4,794,931
Capital assets, depreciable, net	5,391,617	(89,965)	-	5,301,652
Capital assets, net	$ 5,912,512	$ 117,040	$ -	$ 6,029,552

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Mortgages payable	$ 3,656,187	$ -	$ 211,250	$ 3,444,937	$ 232,675
Compensated absences	1,739,873	59,564	-	1,799,437	1,799,437
	$ 5,396,060	$ 59,564	$ 211,250	$ 5,244,374	$ 2,032,112

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest
2012	$ 232,675	$ 169,233
2013	244,338	160,373
2014	251,123	150,959
2015	253,040	141,251
2016	230,096	131,342
2017-2021	1,068,665	501,894
2022-2026	655,000	280,177
2027-2029	510,000	51,418
	$ 3,444,937	$ 1,586,647

Details of mortgages payable are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Due
VHDA Mortgage payable (1)	7.10%	Dec. 2007	Nov. 2019	$ 318,174	$ 249,937
VML/VACo	Variable (2)	June 2006 (3)	Dec. 2020	$ 1,665,000	1,215,000
VML/VACo	6.55%	Feb. 2008	Aug. 2028	$ 2,145,000	1,980,000
					$ 3,444,937

(1) The Board assumed this mortgage as part of its purchase of certain real estate in December 2007. The mortgage on this real estate was originally issued to the prior owner in June 1989 for $469,850.

(2) This rate was 2.06% at June 30, 2011. This rate has no cap or floor and is determined by VML/VACO based on market changes on interest rates.

(3) In October 2008, the Board borrowed an additional $290,000 on this debt issuance for purchase of property.

Note 7. Deferred Revenues

Deferred revenues consist of the following:

Local funds	$ 4,381
State grants	284,122
Federal grants	46,301
	$ 334,804

Note 8. Lease Commitments

The Board leases office space, other facilities, computers, equipment, and vehicles under lease terms which range from one to six years. Future minimum lease requirements under non-cancellable leases are as follows:

Fiscal Year		
2012	$	1,263,740
2013		1,023,850
2014		928,124
2015		644,520
2016		565,590
2017-2021		2,637,129
	$	7,062,953

Note 9. Defined Pension Benefit Plan

Plan description:

The Board contributes to the Virginia Retirement System (VRS), an agent and cost sharing multiple-employer defined benefit pension plan administered by the VRS.

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

Note 9. Defined Pension Benefit Plan (Continued)

Plan description: (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP, or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500 or from the VRS website at http://www.varetire.org.

Funding policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All of the 5.00% member contribution may be and has been assumed by the Board. In addition, the Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Board's contribution rate for the fiscal year ended 2011 was 4.45% of annual covered payroll.

Note 9. Defined Pension Benefit Plan (Continued)

Annual pension cost:

For fiscal year 2011, the Board's annual pension cost of $906,621 was equal to the Board's required and actual contributions.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	$ 795,283	100%	-
6/30/2010	$ 848,425	100%	-
6/30/2011	$ 906,621	100%	-

The fiscal year 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
6/30/2008	$ 25,049,074	$ 22,472,491	$ (2,576,583)	111.47%	$ 18,336,994	(14.03)%
6/30/2009	$ 27,055,092	$ 24,147,523	$ (2,907,569)	112.04%	$ 18,136,464	(16.03)%
6/30/2010	$ 28,519,410	$ 28,478,766	$ (40,644)	100.14%	$ 20,051,809	(0.20)%

Note 10. Net Client Service Revenue

Net client revenue arose from the following sources:

Medicaid	$ 25,759,017
Direct client fees	818,852
Third-party and other	2,401,824
	$ 28,979,693

Note 11. Contributions from Participating Local Governments

Contributions from participating local governments are as follows:

County of Amherst	$	90,571
County of Appomattox		40,228
City of Bedford		6,144
County of Bedford		99,167
County of Campbell		157,404
City of Lynchburg		444,003
	$	837,517

Note 12. Commitments and Contingencies

Certain state and federal grants and programs are subject to audit to determine compliance with their requirements. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 13. Risk Management

The Board participates in the Virginia Association of Counties Group Self-Insurance Risk Pool for various liability coverages which have up to $4,000,000 in coverage limits. The Board participates in the Virginia Municipal League Risk Pool for workers compensation coverage. There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles, and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

Note 14. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

Management has not yet evaluated the effects, if any, of adopting these standards.

Note 15. Subsequent Event

On August 2, 2011, the Board entered into a $1,050,000 contract to construct an intermediate care facility. A portion of those costs will be reimbursed by the Commonwealth of Virginia (the "Commonwealth") through an agreement between the Board and the Commonwealth to share these costs in order to advance community housing options in the Board's service area.

COMPLIANCE SECTION

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
Central Virginia Community Services Board
Lynchburg, Virginia

We have audited the basic financial statements of the Central Virginia Community Services Board (the "Board"), as of and for the year ended June 30, 2011 and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of the Board in a separate letter dated September 23, 2011.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2011

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Central Virginia Community Services Board (the "Board") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2011. The Board's major federal program is 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 its major federal program is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Central Virginia Community Services Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

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Internal Control over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 of management, the Board of Directors, state 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 23, 2011

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalog Number	Expenditures
Department of Justice		
Pass-Through Payments:		
Virginia Department of Criminal Justice Services		
Victims of Child Abuse	16.540	$ 56,648
Department of Health and Human Services		
Direct Payments:		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	214,635
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Substance Abuse and Mental Health Projects of Regional and National Significance – COSIG	93.243	786
Block Grants for Community Mental Health Services	93.958	242,293
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	1,577,499
Total Department of Health and Human Services		2,035,213
Total expenditures of federal awards		$ 2,091,861

Note: The schedule of expenditures of federal awards presents the activity of all federal award programs of the Board and is presented on the accrual basis of accounting.

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

As more fully described in the 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,* we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia
Cash and Investment Laws
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements is reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

   Substance Abuse Prevention and Treatment Block Grant 93.959

8. The threshold for distinguishing Type A and B programs was **$300,000.**
9. The Board was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.