CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

FINANCIAL REPORT

June 30, 2010

C O N T E N T S

INTRODUCTORY SECTION

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2010

Board of Directors

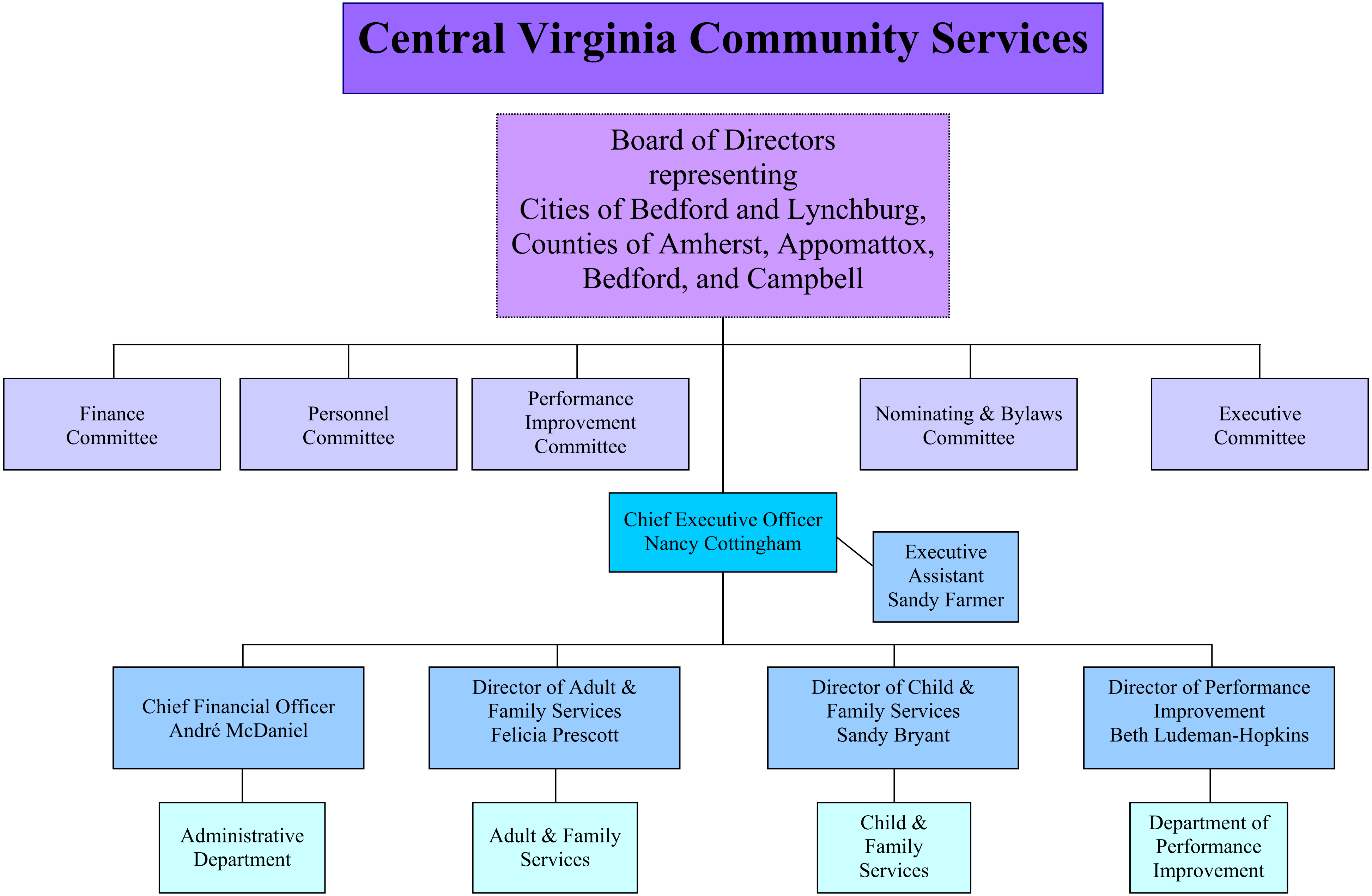
Gary Marple, Chair

William Schneider, Vice-Chair

Clyde Clark	Dana Koeing
William Craft	Leon Parrish
Debbie Drake	Marsha Rose
Stan Goldsmith	Mary Lou Spiggle
Jeff Helgeson	Terry Stelle
Krystal Hullette	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 André McDaniel
Director of Adult & Family Services Felicia Prescott
Director of Child & Family Services Sandy Bryant
Director of Performance Improvement Beth Ludeman-Hopkins
Administrative Department
Adult & Family Services
Child & Family Services
Department of Performance Improvement

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN,
EDWARDS&
COMPANY, L.L.P.
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, 2010, 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 2009 financial statements on which, in our report dated November 10, 2009, 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, 2010, 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 November 10, 2010, 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, 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 on pages 3a through 3d 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 the required supplementary 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
November 10, 2010

Central Virginia Community Services Board
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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, 2010.

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, 2010. 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, 2010. 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 2010 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 2010 (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, 2010 and 2009 is presented below:

Summary Statement of Net Assets

	2010	2009
Current Assets	$ 7,968,016	$ 6,398,125
Current Restricted Assets	61,466	112,296
Capital Assets	5,912,512	6,244,537
Other Assets	393,989	369,129
Total Assets	**$ 14,335,983**	**$ 13,124,087**
Current Liabilities	$ 3,753,012	$ 3,720,553
Current Liabilities payable from restricted assets	61,466	112,296
Long Term Liabilities	3,425,062	3,616,890
Total Liabilities	**$ 7,239,540**	**$ 7,449,739**
Net Assets:		
Invested in Capital Assets	$ 2,256,325	$ 2,407,966
Unrestricted	4,840,118	3,266,382
Total Net Assets	**$ 7,096,443**	**$ 5,674,348**

Financial Summary (continued)

The financial position of CVCS is reflected by the current ratio (current assets / current liabilities) and was calculated to be 2.1 as of June 30, 2010, and on June 30, 2009, the current ratio was 1.7. 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 2.1 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 2010 and 2009 is presented below:

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2010	2009
Operating Revenues:		
Net Client Service Revenue	$ 27,969,114	$ 27,307,459
Operating Expenses	35,337,778	33,274,010
Operating Income (loss)	(7,368,664)	(5,966,551)
Non-operating revenues – net	8,790,759	8,361,158
Change in net assets	1,422,095	2,394,607

Operating Revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 89% in FY2010, were received from Medicaid (please see Note 10). During fiscal year 2010, Operating Revenue rose by 2% 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 2010 and 2009. During fiscal year 2010, Operating Expenses increased by 6%. The fiscal year 2010 increase is mainly attributed to higher personnel and health care 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 90% for fiscal year 2010 and 92% for fiscal year 2009 of the net non-operating revenue. Appropriations from local governments constituted 10% for fiscal years 2010 and 2009. The remaining non-operating revenue consists of other income, interest income and expense. Net non-operating revenue increased by 5% in fiscal year 2010.

There was an increase in net assets by $1,422,095 in fiscal year 2010 and an increase of $2,394,607 in fiscal year 2009.

Cash flows: A summary of CVCS' Statement of Cash Flows for 2010 and 2009 is presented below.

Condensed Statement of Cash Flows

	2010	2009
Cash flows from (to) operating activities	$ 8,055,037	$ (5,977,670)
Cash flows from non-capital related financing activities	9,189,286	8,868,956
Cash flows from (to) capital related financing activities	(553,894)	(802,409)
Cash flows from investing activities	13,060	8,049
Net cash increase (decrease)	593,415	2,096,926
Cash and cash equivalents, beginning of year	3,295,744	1,198,818
Cash and cash equivalents, end of year	3,889,159	3,295,744

Financial Summary (continued)

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 2010 and 2009, 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 $593,415 during fiscal year 2010 and a net increase of $2,096,926 in fiscal year 2009.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2010, CVCS had $5,912,512 in Net Capital Assets. This is comprised of $10,320,661 in capital assets less $4,408,149 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 58%, furniture and equipment constitutes 29%, vehicles constitute 8% and land constitutes 5%.

Long Term Debt

Long term obligations as of June 30, 2010 were $3,656,187 (please see Note 6). This is an decrease of $180,384 due to principal payments on long term debt.

Financial Highlights

Based on positive operating results, CVCS' net assets increased by $1,422,095 during the fiscal year.

During the fiscal year ended June 30, 2010, CVCS had operating expenses of $35,511,350 compared with $33,506,332 the previous year. These figures included interest expense on mortgages and capital leases of $173,572 and $232,322 in 2010 and 2009 respectively.

During the fiscal year ended June 30, 2010, CVCS had net client service revenues of $27,969,114 compared with $27,307,459 for the previous year. This represents an increase of $661,655 or 2.4% over fiscal year 2009.

During the fiscal year ended June 30, 2010, CVCS had net revenues from local, state and federal appropriations/grants of $8,756,850 compared with $8,537,225 in fiscal year 2008, an increase of $219,625 or 2.6% more than fiscal year 2009.

During the fiscal year ended June 30, 2010, CVCS had total revenues of $36,933,445 including all sources as compared with $35,900,939 the previous year, an increase of $1,032,506 or 2.9% increase in total revenue.

During the year ended June 30, 2010, operating expenses were $1,422,095 less than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were $2,394,607 lower than operating revenues.

Operating expenses were $109,986 less than the budget for fiscal year ended June 30, 2010. Revenues were $137,109 greater than budget. The net variance from budget was favorable by $240,096.

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, 2010

	2010	2009 (For Comparative Purposes Only)
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 3,505,933	$ 2,890,561
Accounts receivable, net (Note 3)	4,139,483	2,853,047
Due from other governments (Note 4)	132,396	386,318
Prepaid expenses and other	190,204	268,199
Cash and cash equivalents, restricted for clients (Note 2)	61,466	112,296
Total current assets	8,029,482	6,510,421
Noncurrent assets		
Cash and cash equivalents, restricted for debt reserves (Note 2)	321,760	292,887
Bond issuance costs	72,229	76,242
Capital assets, net (Note 5)	5,912,512	6,244,537
Total noncurrent assets	6,306,501	6,613,666
Total assets	14,335,983	13,124,087
LIABILITIES		
Current liabilities		
Accounts payable	1,010,360	695,598
Accrued payroll and related liabilities	88,466	335,457
Accrued interest	56,589	56,589
Amounts held for clients, payable from restricted assets	61,466	112,296
Deferred revenues (Note 7)	626,599	623,184
Current portion of long-term liabilities (Note 6)	1,970,998	2,009,725
Total current liabilities	3,814,478	3,832,849
Long-term liabilities (Note 6)	3,425,062	3,616,890
Total liabilities	7,239,540	7,449,739
COMMITMENTS AND CONTINGENCIES (Notes 8, 12)	-	-
NET ASSETS		
Invested in capital assets, net of related debt	2,256,325	2,407,966
Unrestricted	4,840,118	3,266,382
Total net assets	$ 7,096,443	$ 5,674,348

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2010

	2010	(For Comparative Purposes Only) 2009
OPERATING REVENUES		
Net client service revenue (Note 10)	$ 27,969,114	$ 27,307,459
OPERATING EXPENSES		
Salaries and benefits	28,131,571	26,062,781
Staff development and recruitment	207,876	171,946
Facility	813,114	852,862
Supplies	1,062,461	901,654
Travel	230,869	256,296
Contractual and professional services	2,400,919	2,506,869
Leases	1,475,169	1,419,030
Insurance	302,084	326,418
Depreciation and amortization	555,298	599,679
Other	158,417	176,475
Total operating expenses	35,337,778	33,274,010
Operating loss	(7,368,664)	(5,966,551)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	5,448,150	5,200,482
Federal grants	2,449,981	2,484,308
Contributions from participating local governments (Note 11)	858,719	852,435
Interest income	13,060	8,049
Interest expense	(173,572)	(232,322)
Other income	194,421	48,206
Net nonoperating revenues	8,790,759	8,361,158
Change in net assets	1,422,095	2,394,607
NET ASSETS AT JULY 1	5,674,348	3,279,741
NET ASSETS AT JUNE 30	$ 7,096,443	$ 5,674,348

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

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

	2010	(For Comparative Purposes Only) 2009
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 26,682,678	$ 26,855,923
Payments to suppliers	(6,258,152)	(6,700,837)
Payments to employees	(28,428,733)	(26,117,286)
Other expenses	(50,830)	(15,470)
Net cash used in operating activities	(8,055,037)	(5,977,670)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, State, and Federal Governments	9,014,187	8,820,750
Other receipts	175,099	48,206
Net cash provided by non-capital financing activities	9,189,286	8,868,956
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(223,202)	(596,206)
Proceeds from the sale of capital assets	23,264	-
Proceeds from the issuance of debt	-	290,000
Principal paid on debt	(180,384)	(272,858)
Interest paid on debt	(173,572)	(223,345)
Net cash used in capital and related financing activities	(553,894)	(802,409)
INVESTING ACTIVITIES		
Interest received	13,060	8,049
Net cash provided by investing activities	13,060	8,049
Net increase in cash and cash equivalents	593,415	2,096,926
CASH AND CASH EQUIVALENTS		
Beginning at July 1	3,295,744	1,198,818
Ending at June 30	$ 3,889,159	$ 3,295,744
RECONCILIATION TO STATEMENT OF NET ASSETS		
Cash and cash equivalents	$ 3,505,933	$ 2,890,561
Cash and cash equivalents, restricted for clients	61,466	112,296
Cash and cash equivalents, restricted for debt reserves	321,760	292,887
	$ 3,889,159	$ 3,295,744

(Continued)

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

	2010	(For Comparative Purposes Only) 2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (7,368,664)	$ (5,966,551)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	555,298	599,679
Decrease (increase) in:		
Accounts receivable, net	(1,286,436)	(451,536)
Prepaid expenses and other	77,995	(98,675)
Increase (decrease) in:		
Accounts payable	314,762	9,388
Accrued payroll and related liabilities	(246,991)	13,378
Compensated absences	(50,171)	(67,883)
Amounts held for clients, payable from restricted assets	(50,830)	(15,470)
Net cash used in operating activities	$ (8,055,037)	$ (5,977,670)

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.

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.

Compensated absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave for employees who have been employed for 5 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:

All cash of the Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

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.

Concentration of credit risk:

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

Note 2. Deposits and Investments (Continued)

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.

Deposits and investments:		
Cash on hand	$	3,150
Deposits		3,605,611
Money market mutual fund		280,398
	$	3,889,159
Statement of net assets:		
Cash and cash equivalents	$	3,505,933
Cash and cash equivalents, restricted for clients		61,466
Cash and cash equivalents, restricted for debt reserves		321,760
	$	3,889,159

Note 3. Accounts Receivable, net

Accounts receivable, net consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$	3,376,900
Direct client		1,594,109
Third party insurers and other		531,128
		5,502,137
Allowance for uncollectible accounts		(1,362,654)
	$	4,139,483

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:

Federal government - SAMHSA grant	$	35,503
Other programs		96,893
	$	132,396

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	$ -	$ -	$ 515,280
Construction in progress	-	5,615	-	5,615
Capital assets, nondepreciable	515,280	5,615	-	520,895
Capital assets, depreciable				
Building and improvements	5,956,844	9,000	-	5,965,844
Furniture and equipment	2,912,041	113,717	(1,289)	3,024,469
Vehicles	824,537	94,870	(109,954)	809,453
Capital assets, depreciable	9,693,422	217,587	(111,243)	9,799,766
Less accumulated depreciation	3,964,165	551,285	107,301	4,408,149
Capital assets, depreciable, net	5,729,257	(333,698)	(3,942)	5,391,617
Capital assets, net	$ 6,244,537	$ (328,083)	$ (3,942)	$ 5,912,512

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	$ 3,836,571	$ -	$ 180,384	$ 3,656,187	$ 231,125
Compensated absences	1,790,044	-	50,171	1,739,873	1,739,873
	$ 5,626,615	$ -	$ 230,555	$ 5,396,060	$ 1,970,998

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest
2011	$ 231,125	$ 178,533
2012	232,675	169,870
2013	244,338	160,874
2015	251,123	151,319
2015	253,040	141,471
2016-2020	1,158,886	552,511
2021-2025	625,000	321,767
2026-2029	660,000	89,736
	$ 3,656,187	$ 1,766,081

Details of mortgages payable are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Due
VHDA Mortgage payable (2)	7.10%	Dec. 2007	Nov. 2019	$ 318,174	$ 271,187
VML/VACo	Variable (3)	June 2006 (4)	Dec. 2020	$ 1,665,000	1,350,000
VML/VACo	6.55%	Feb. 2008	Aug. 2028	$ 2,145,000	2,035,000
					$ 3,656,187

(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 2.15% at June 30, 2010. 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 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. Deferred revenues consist of the following:

State grants	$ 540,725
Federal grants	85,874
	$ 626,599

Note 8. Lease Commitments

The Board leases office space, other facilities, 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		
2011	$	887,586
2012		322,031
2013		73,237
2014		46,876
2015		47,274
2016		37,044
	$	1,414,048

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 must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service or at age 50 with at least 30 years of service if elected by the employer payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. The VRS plan 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 Central Assembly of Virginia.

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

Funding policy:

Plan members are required by Title 51.1 of the *Code of Virginia* (the "Code") (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The Board may and has assumed this 5% member contribution. 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 and approved by the VRS Board of Trustees. The Board's contribution rate for fiscal year 2010 was 4.42% of the annual covered payroll, not including the employee's share of 5% paid by the employer.

Note 9. Defined Pension Benefit Plan (Continued)

Annual pension cost:

For fiscal year 2010, the Board's annual pension cost, not including the employee share assumed by the Board, of $848,425 was equal to the Board's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions on which the contributions for 2010 were based included: (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 560,874	100%	-
6/30/2009	$ 795,283	100%	-
6/30/2010	$ 848,425	100%	-

Schedule Of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
6/30/2007	$ 21,701,811	$ 19,176,235	$ (2,525,576)	113.17%	$ 16,934,145	(14.91)%
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)%

Note 10. Net Client Service Revenue

Net client revenue arose from the following sources:

Medicaid	$ 24,992,782
Direct client fees	1,090,533
Third-party and other	1,885,799
	$ 27,969,114

Note 11. Contributions from Participating Local Governments

Contributions from participating local governments are as follows:

County of Amherst	$	106,554
County of Appomattox		40,228
City of Bedford		6,144
County of Bedford		104,386
County of Campbell		157,404
City of Lynchburg		444,003
	$	858,719

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.

COMPLIANCE SECTION

BROWN,
EDWARDS&
COMPANY, L.L.P.
Certified Public Accountants

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 financial statements of the Central Virginia Community Services Board (the "Board"), as of and for the year ended June 30, 2010 and have issued our report thereon dated November 10, 2010. 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. **However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency identified as Item 08-2 to be a significant deficiency in internal control over financial reporting.** A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 November 10, 2010.

The Board's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Board's responses and, accordingly, we express no opinion on them.

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
November 10, 2010

BROWN, EDWARDS & COMPANY, L.L.P.
Certified Public Accountants

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, 2010. 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, 2010.

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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
November 10, 2010

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010

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	$ 53,376
Department of Education		
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
Early Intervention – Part C	84.181	123,500
Department of Health and Human Services		
Direct Payments:		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	488,037
Pass-Through Payments:		
Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services:		
PATH	93.150	14,470
Mental Health Block Grant	93.958	229,659
Substance Abuse Prevention and Treatment Block Grant	93.959	1,540,939
Total Department of Health and Human Services		2,273,105
Total expenditures of federal awards		$ 2,449,981

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.

(Continued)

CENTRAL VIRGINIA COMMUNITY SERVICES BOARD

SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

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

SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **One significant deficiency** 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*. **This significant deficiency was not determined to be a material weakness.**
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 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 **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

08-2: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the segregation of duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. A lack of segregation of duties remains in certain areas, primarily in accounts receivable. Fully eliminating some of these control deficiencies may not be possible without additional personnel.

Recommendation:

Steps should be taken to eliminate the performance of conflicting duties where possible. Management may be able to introduce compensating controls in certain instances where duties cannot be adequately separated.

Management's Response:

Management has taken and will continue to take steps to correct the segregation of duties issues within the limits imposed by staffing constraints.

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

None.