

Audited Financial Statements

Eastern Panhandle Mental Health Center, Inc.  
d/b/a EastRidge Health Systems and Affiliates

Years Ended June 30, 2008 and 2007

DHHR - Finance

OCT 20 2009

Date Received

**Gibbons  
& Kawash**  
Certified Public Accountants

Audited Financial Statements

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

Years Ended June 30, 2008 and 2007

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Eastern Panhandle Mental Health Center, Inc.  
d/b/a EastRidge Health Systems  
Martinsburg, West Virginia

We have audited the accompanying consolidated statement of financial position of Eastern Panhandle Mental Health Center, Inc., d/b/a EastRidge Health Systems and Affiliates (the Agency) as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EastRidge Health Systems and Affiliates as of June 30, 2008 and 2007, and the changes in their net assets and their 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 October 7, 2009, on our consideration of EastRidge Health Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Agency taken as a whole. The accompanying information for EastRidge Health Systems, including the schedules of expenditures of state awards, BHHF funded fixed assets, BHHF funding status, and standardized financial statements, are presented for purposes of additional analysis as required by the West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHHF). These schedules are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*Johnson & Kawash*

October 7, 2009

EASTRIDGE HEALTH SYSTEMS  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 253,017	\$ 265,849
Grants and contracts receivable	345,758	118,814
Client fees receivable, less allowance for doubtful accounts of \$124,941 in 2008 and \$61,575 in 2007	538,104	500,294
Other current assets	<u>115,185</u>	<u>79,010</u>
Total current assets	<u>1,252,064</u>	<u>963,967</u>
Property and equipment, less accumulated depreciation	2,505,565	2,522,675
Investment	<u>2,558</u>	<u>2,558</u>
Total assets	<u>\$ 3,760,187</u>	<u>\$ 3,489,200</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,017,130	\$ 858,948
Accrued provider tax	16,642	15,120
Current maturities of long-term debt	160,396	42,161
Note payable - line of credit	556,050	617,000
Deferred revenue	<u>2,263</u>	<u>2,260</u>
Total current liabilities	<u>1,752,481</u>	<u>1,535,489</u>
Long-term debt, less current maturities	<u>243,180</u>	<u>343,585</u>
Total liabilities	<u>1,995,661</u>	<u>1,879,074</u>
Unrestricted net assets	<u>1,764,526</u>	<u>1,610,126</u>
Total liabilities and net assets	<u>\$ 3,760,187</u>	<u>\$ 3,489,200</u>

The accompanying notes are an integral part of these financial statements.

EASTRIDGE HEALTH SYSTEMS  
CONSOLIDATED STATEMENT OF ACTIVITIES

Years Ended June 30, 2008 and 2007

Changes in unrestricted net assets:	<u>2008</u>	<u>2007</u>
Revenues:		
Federal funds	\$ 363,929	\$ 350,441
State and other grants	2,845,867	2,489,265
Patient service fees, net	4,619,527	4,082,701
Interest income	136	414
Other income	113,041	133,215
Donated facility	157,500	157,500
Room and board	<u>212,493</u>	<u>221,940</u>
	<u>8,312,493</u>	<u>7,435,476</u>
Expenses:		
Salaries and wages	4,123,129	3,619,298
Employee benefits	1,030,954	923,116
Contracted services and professional fees	969,936	950,509
Repairs and maintenance	113,697	130,859
Supplies	188,296	183,349
Utilities	186,039	226,630
Staff development and travel	46,767	42,709
Advertising	31,060	78,983
Provision for doubtful accounts	88,339	25,000
Occupancy	120,372	119,302
Depreciation	136,617	134,274
Taxes	198,019	174,255
Insurance	250,655	265,492
Telephone	61,315	70,250
Interest	74,135	63,564
Donated facility	157,500	157,500
Equipment rental	40,967	54,447
Other	<u>340,296</u>	<u>323,163</u>
	<u>8,158,093</u>	<u>7,542,700</u>
Increase (decrease) in net assets	154,400	(107,224)
Net assets, beginning of year	<u>1,610,126</u>	<u>1,717,350</u>
Net assets, end of year	<u>\$ 1,764,526</u>	<u>\$ 1,610,126</u>

The accompanying notes are an integral part of these financial statements.

EASTRIDGE HEALTH SYSTEMS  
CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 154,400	\$ (107,224)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	136,617	134,274
Loss on disposal of fixed assets	1,232	-
Provision for bad debts	88,339	25,000
Changes in operating assets and liabilities:		
Increase in:		
Accounts receivable	(126,149)	(33,566)
Grants receivable	(226,944)	(70,554)
Prepaid and other assets	(36,175)	(22,493)
Increase (decrease) in:		
Accounts payable and accrued expenses	159,704	(163,900)
Deferred revenue	3	(1,698)
Net cash provided by (used in) operating activities	<u>151,027</u>	<u>(240,161)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	2,313
Purchases of property and equipment	<u>(120,739)</u>	<u>(91,567)</u>
Net cash used in investing activities	<u>(120,739)</u>	<u>(89,254)</u>
Cash flows from financing activities:		
Proceeds from (payments on) line of credit	(60,950)	369,361
Proceeds from issuance of long-term debt	73,927	65,330
Principal payments on long-term debt	<u>(56,097)</u>	<u>(46,660)</u>
Net cash provided by (used in) financing activities	<u>(43,120)</u>	<u>388,031</u>
Net increase (decrease) in cash	(12,832)	58,616
Cash and cash equivalents, beginning of year	<u>265,849</u>	<u>207,233</u>
Cash and cash equivalents, end of year	<u>\$ 253,017</u>	<u>\$ 265,849</u>

The accompanying notes are an integral part of these financial statements.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Organization

Eastern Panhandle Mental Health Center, Inc., d/b/a EastRidge Health Systems and Affiliates (the Agency) is a nonprofit, nonstock corporation organized under the laws of the State of West Virginia and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agency is classified as other than a private foundation. The primary purpose of the Agency is to develop, operate, and maintain mental health facilities and services for individuals residing in Berkley, Morgan, and Jefferson counties in West Virginia.

In addition to the Agency, the consolidated financial statements include the financial activities of Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Incorporated, separate corporations formed to provide housing to persons with mental illness or mental retardation/developmental disabilities, respectively. Nar Roberts Jr., Incorporated, which is not considered a private foundation, is recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar sections of state statutes. Hoffmaster Homes of Martinsburg, Incorporated, is in the process of applying for exemption from income taxes under Section 501(c)(3).

The Agency, Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Incorporated, are related through common management and board members. The Agency has control over selection and approval of the boards of directors of Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Incorporated. All significant interorganization accounts and transactions are eliminated in consolidation.

Basis of Accounting

Revenues and expenses are recognized on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. The Agency records grant monies received in advance as deferred revenue and recognizes revenue as qualifying expenditures are incurred.

Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Included in cash and accounts payable are separate accounts for client funds not owned by the Agency. The funds, which amounted to \$55,084 and \$28,037 at June 30, 2008 and 2007, respectively, are maintained for individuals residing in the group homes.



EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment are stated at cost. Major purchases and improvements are capitalized while repairs and maintenance are expensed as incurred. Depreciation has been provided over the estimated useful lives using the straight-line method in accordance with the American Hospital Association guidelines. Estimated useful lives are as follows:

Buildings and improvements	15-40 years
Vehicles, furniture and equipment	3-20 years

The use of facilities provided by the State of West Virginia is recognized based on the fair value of the facility

Net Client Revenues

The Agency has agreements with third-party payors that provide for payments to the Agency at amounts different from its established rates. Net client revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third-party payors. The allowance for doubtful accounts is based on management's experience and analysis of prior year collections. The Agency's policy for writing off bad debts includes writing off amounts due after 365 days if no payment is received.

The Agency has a policy of providing care to individuals regardless of their ability to pay. Such consumers are identified based on financial information provided by the individual. Since the Agency does not expect payment, charges are recorded at established rates, net of allowances for charity and not included in revenues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Unrestricted net assets are resources over which the Board of Directors has discretionary control.

As of June 30, 2008, the equity of Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Inc., included \$1,252,698 and \$400,780, respectively, received under capital advance

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets (Continued)

agreements with HUD The capital advance agreements with HUD state that the advances shall bear no interest and are not required to be repaid so long as the housing remains available to eligible, very low income households for a period of 40 years in accordance with Section 811 Failure to do so would result in HUD billing Nar Roberts Jr , Incorporated, or Hoffmaster Homes of Martinsburg, Inc , for the entire capital advance outstanding plus interest since the date of the first advance.

**2 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	June 30	
	<u>2008</u>	<u>2007</u>
Land	\$ 231,381	\$ 328,221
Buildings and improvements	2,547,706	2,625,743
Vehicles	233,527	237,784
Leasehold improvements	388,047	388,047
Furniture and equipment	968,590	965,230
Land and buildings held for resale	350,873	-
Construction in progress	<u>-</u>	<u>60,000</u>
	4,720,124	4,605,025
Less accumulated depreciation and amortization	<u>2,214,559</u>	<u>2,082,350</u>
	<u>\$ 2,505,565</u>	<u>\$ 2,522,675</u>

Cost and accumulated depreciation of property and equipment purchased with West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHBF) grant funds were \$683,298 and \$254,748 at June 30, 2008, and \$679,912 and \$228,833 at June 30, 2007, respectively.

Continued use of facilities donated by the State of West Virginia, and property and equipment purchased with federal and state grant funds is contingent upon the Agency continuing to provide treatment to persons who are emotionally disturbed or developmentally disabled Management believes that it is highly unlikely the Agency would discontinue providing these services.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**3 - LONG-TERM DEBT**

Long-term debt consisted of the following:

	<u>2008</u>	<u>2007</u>
Note payable to government agency, payable in monthly installments of \$4,167, non-interest bearing, discounted at a rate of 8%, final payment due 2012	\$ 170,671	\$ 205,494
Note payable to bank, payable in monthly installments of \$1,324, including interest at prime plus 1%, final payment due August 5, 2013, secured by real estate	119,275	120,252
Note payable to bank, payable in monthly installments of \$1,245, including interest at prime plus 1%, secured by equipment. Paid in full August 14, 2008.	113,630	60,000
	<u>403,576</u>	<u>385,746</u>
Less current portion	<u>160,396</u>	<u>42,161</u>
	<u>\$ 243,180</u>	<u>\$ 343,585</u>

Maturities of long-term debt are as follows:

<u>June 30</u>	
2009	\$ 160,396
2010	44,823
2011	44,838
2012	44,889
2013	44,946
Thereafter	<u>63,684</u>
	<u>\$ 403,576</u>

The Agency has a \$750,000 line of credit with a local bank, with interest payable at 1% above the New York Prime Rate, secured by accounts receivable. At June 30, 2008 and 2007, the balance outstanding under this line of credit was \$556,050 and \$617,000, respectively. The line of credit expired April 24, 2009, and has been extended through August 25, 2010.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**3 - LONG-TERM DEBT (Continued)**

Cash paid for interest during the years ended June 30, 2008 and 2007, was \$72,873 and \$63,564, respectively.

**4 - LEASES**

The Agency leases two buildings from the State of West Virginia on a year-to-year basis with annual lease payments equaling \$1 under each lease. Revenue and corresponding rent expense have been recognized for the annual fair rental value of the leased facilities in the amount of \$157,500 for the years ending June 30, 2008 and 2007. The fair value of the use of the facilities was based on the rental price per square foot of similar buildings in the local area (a Level 2 input).

The Agency leases certain facilities and office equipment under operating lease agreements that expire in various years through April 18, 2014. Rent expense on all operating leases was \$161,349 and \$173,749 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year Ended June 30</u>	
2009	\$ 145,144
2010	125,475
2011	89,115
2012	52,755
2013	52,755
Thereafter	<u>43,963</u>
	<u>\$ 509,207</u>

**5 - EMPLOYEE BENEFIT PLANS**

The Agency participates in the West Virginia Public Employees Retirement System (WVPERS), which is a defined benefit, cost-sharing, multiple employer pension plan. The Plan covers individuals who elected to remain in PERS after the establishment of a defined contribution retirement plan, and for whom annual work hours exceed 1,040 and employment is not restricted as temporary or provisional. The benefit is equal to a percentage multiplied by the final average salary. Contributions to the WVPERS by the Agency are 10.5% of eligible employees' compensation. In addition, 4.5% is withheld from eligible employees' compensation and remitted on a monthly basis to the WVPERS. The Agency's contribution requirement was not actuarially determined. Contribution obligations and benefit provisions are statutorily established by the West Virginia Public Employees Retirement Act, as amended. Employer contributions for the years ended June 30, 2008 and 2007, were \$11,649 and \$20,112, respectively.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**5 - EMPLOYEE BENEFIT PLANS (Continued)**

Information regarding benefit provisions, actuarial assumptions and funding method, pension benefit obligation (actuarial present value of credit projected benefits), net assets available for benefits, historical trends, and related party transactions is not readily available since such determinations are made and information is kept on a system-wide basis and not for the individual participating entities. This information is available in the separately issued financial statements of the WVPERS.

On April 20, 1997, the West Virginia legislature passed Senate Bill No. 544, which requires mental health centers participating in the WVPERS to provide a private pension plan for current employees at their option and for future employees within a certain time frame. During 1998, the Corporation established a 403(b) defined contribution retirement plan (the Plan) for those employees electing not to remain in WVPERS. Employees electing to participate in the Plan will not be entitled to postretirement medical benefits. Employees are eligible to participate in the Plan upon attaining the age of 21 years. The Board of Directors determines contributions to be made to the plan each year; however, contributions cannot exceed 5% of each covered employee's salary. Total contributions under this plan amounted to \$89,425 and \$81,649 for the years ended June 30, 2008 and 2007, respectively.

The Agency receives non-vested forfeitures directly from the trustee for former participants in the defined contribution plan during each year. These forfeiture amounts are credited to pension expense when received. Total non-vested forfeitures received by the Agency for the years ended June 30, 2008 and 2007, were \$(1,582) and \$(6,433), respectively.

**6 - THIRD-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY**

The Agency has agreements with Medicaid and Medicare that provide for payments to the Agency at predetermined amounts that differ from its standard rates. The ability of the Agency to receive future payments from these sources depends on legislation enacted and resources available to the State of West Virginia. The Agency also receives payments for services from private payors, certain governmental agencies, and other third-party payors.

Revenue recognized from client services is as follows for the years ended June 30, 2008 and 2007:

	Year Ended June 30, 2008		
	Gross Patient Revenue	Less: Contractual Adjustments, Charity Care	Net Patient Revenue
Medicaid	\$ 858,639	\$ 194,027	\$ 664,612
Medicaid waiver	3,467,302	51,882	3,415,420

EASIRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**6 - THIRD-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY (Continued)**

	Year Ended June 30, 2008 (Continued)		
	Gross Patient Revenue	Less: Contractual Adjustments, Charity Care	Net Patient Revenue
Medicare	84,838	48,877	35,961
Private pay	374,756	122,996	251,760
Insurance	101,361	33,006	68,355
Uncompensated care	344,348	344,348	-
Other	184,968	1,549	183,419
Total	\$ 5,416,212	\$ 796,685	\$ 4,619,527

	Year Ended June 30, 2007		
	Gross Patient Revenue	Less: Contractual Adjustments, Charity Care	Net Patient Revenue
Medicaid	\$ 688,444	\$ 157,942	\$ 530,502
Medicaid waiver	3,237,986	61,084	3,176,902
Medicare	98,317	46,148	52,169
Private pay	252,923	69,803	183,120
Insurance	95,057	30,600	64,457
Uncompensated care	378,739	378,739	-
Other	76,987	1,436	75,551
Total	\$ 4,828,453	\$ 745,752	\$ 4,082,701

Grants received from the State of West Virginia, including federal grants paid through the state, amounted to approximately \$2,991,000, which comprised 37% of total revenues. Should a significant reduction in this funding occur, the Agency's programs and activities would be significantly impacted.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Continued)

**7 - CONCENTRATION OF CREDIT RISK**

The Agency receives payments for services from Medicaid, Medicare, private payors, and certain governmental agencies. The ability of these parties to honor their obligations is partially dependent upon the economic condition of the State of West Virginia and the health insurance industry. The Agency maintains allowances for potential losses, which, when realized, have been within the range of management's expectations.

**8 - FUNCTIONAL EXPENSES**

The Agency provides mental health services to residents within Berkeley, Morgan, and Jefferson counties in West Virginia. The expenses for Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Incorporated, relate specifically to costs incurred for operating the Section 8 Housing and Urban Development facility. Expenses related to providing these services for the years ended June 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 7,772,167	\$ 5,398,502
Housing	123,937	117,206
General and administrative	<u>1,814,652</u>	<u>1,969,492</u>
	<u>\$ 9,710,756</u>	<u>\$ 7,485,200</u>

**9 - CONTINGENCIES**

The Agency is involved in various claims and litigation arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to the Agency's financial position.

The Agency was the target of an investigation in which a civil action was filed on May 18, 1999, alleging violations of False Claims Act. The United States Department of Justice contended it had certain civil claims against the Agency for claims improperly submitted to Medicare and Medicaid for payment.

On February 2, 2004, the Agency entered into a final settlement agreement with the United States Department of Justice for \$500,000 and agreed to comply with the terms of a Corporate Integrity Agreement. The amount was paid by the Agency on February 27, 2004.

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**9 - CONTINGENCIES (Continued)**

The Corporate Integrity Agreement provides for a close monitoring of compliance with specific Federal and State rules and regulations. The Corporate Integrity Agreement will be in effect for five years and result in an additional annual cost of approximately \$100,000. The Corporate Integrity Agreement includes many requirements to monitor compliance with Federal and State regulations including mandatory training, engaging an Independent Review Organization to perform reviews of compliance, and annual reporting on compliance.

**10 - FINANCIAL CONDITION**

EastRidge Health Systems, a component of the consolidated Agency, reported unrestricted net assets of \$111,048 as of June 30, 2008 and a deficiency in its unrestricted net assets of \$(40,092) as of June 30, 2007. In addition, current liabilities exceed current assets by \$650,118 and \$741,912 at June 30, 2008 and 2007, respectively.

EastRidge Health Systems' plans with respect to improving its financial condition include: maintaining the recent increase in the number of clients at the Crisis Stabilization Unit by continuing to provide step-down services to Sharpe Hospital clients; a Suboxone Clinic that began in April 2008; continuing to improve the productivity of direct care services providers; and improving billing by ensuring that clients are served in the most efficient way possible in the MR/DD program areas. In addition, the Agency is seeking funding from the state, and the Department of Health and Human Resources has indicated that they will provide \$198,000 to pay for other programs and building improvements.

**11 - MANAGEMENT CONTRACT**

During May 2002, the Agency entered into a management contract with Valley Comprehensive Community Mental Health Center, Inc., d/b/a Valley HealthCare System (Valley). Under this contract, Valley provides administrative systems, accounting, utilization management and other administrative services to the Agency. The contract was terminated in February 2009. The terms of the contract stipulated a monthly fee of \$5,000 for accounting services along with fees charged per transaction for various management services. During the years ended June 30, 2008 and 2007, the Agency incurred expenses under the contract of \$203,006 and \$187,826, respectively, and has recorded a related payable at June 30, 2008 and 2007, under the contract of \$138,366 and \$49,481, respectively.



## **ACCOMPANYING INFORMATION**

EASTRIDGE HEALTH SYSTEMS

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Deferred Revenue July 1, 2007</u>
<u>West Virginia Department of Health and Human Resources</u>			
Uncompensated Care	0525-2008-3065-219-252/258	\$ 619,324	\$ -
MI-Client Crisis Improvement	0525-2008-2851-219-252/258	191,294	-
MI-Client	0525-2008-2851-219-252/258	139,632	-
Supportive Services	0525-2008-3041-219-252/258	325,547	-
Community Support Funds	0525-2008-3702-219-252/258	254,579	-
DD-Client	0525-2008-2867-219-252/258	209,292	-
Case Mgmt Improvement	0525-2008-2851-219-252/258	25,000	-
Family Support	0525-2008-2870-221-252/258	73,912	-
MR/DD Targeted	0525-2008-2877-219-252/258	184,864	-
PI Shelter	0525-2008-2885-219-252/258	81,800	-
SA Adult Treatment Grant	0525-2008-2891-219-252/258	95,014	-
Crisis Stabilization Strt Up	0525-2007-3701-219-252	51,510	-
Relief Funding	0525-2007-0506-219-083	<u>395,000</u>	-
Total Department of Health and Human Resources		<u>\$ 2,646,768</u>	<u>\$ -</u>
<u>West Virginia Department of Education and the Arts Division of Rehabilitation Services</u>			
Rehabilitative Services	100214	\$ 143,103	\$ -
Total State Awards		<u>\$ 2,789,871</u>	<u>\$ -</u>

See Independent Auditor's Report

<u>Disbursements/ Expenditures</u>	<u>Deferred Revenue June 30, 2008</u>
\$ 619,324	\$ -
189,329	-
139,632	-
325,547	-
210,418	-
209,292	-
25,000	-
60,918	-
184,864	-
81,800	-
95,014	-
51,510	-
<u>395,000</u>	<u>-</u>
<u>\$ 2,587,648</u>	<u>\$ -</u>
<u>\$ 143,103</u>	<u>\$ -</u>
<u>\$ 2,730,751</u>	<u>\$ -</u>

EASTRIDGE HEALTH SYSTEMS

BHHF ASSETS - EQUIPMENT AND AUTOMOBILES  
CUMULATIVE PROPERTY SCHEDULE

June 30, 2008

Description	Asset Type	ID	Date	Life	Amount	State
File Cabinet	Furniture	173	27-Jun-94	5	318	
Freezer	Furniture	174	30-Jun-94	5	529	
Furniture	Furniture	114	30-Jun-93	5	761	
Computers	Computer	338	01-Jul-99	5	1,853	
Furniture	Furniture	113	25-Feb-93	5	2,046	
Gateway Computers	Computer	330	01-May-99	5	5,050	
Computers	Computer	115	30-Oct-92	5	5,778	
Computers	Computer	98	27-Oct-92	5	7,847	
5 Drawer Lateral Filing Cabinet	Furniture		03-Jun-03	5	731	0525-200
94 Van	Vehicle	143	31-Dec-93	5	19,468	
2000 Van	Vehicle	349	01-Sep-00	5	39,967	

TOTALS 6/30/2008

\$ 84,348

See Independent Auditors' Report

EASTRIDGE HEALTH SYSTEMS

BHHF ASSETS - LEASEHOLDS, LAND, AND BUILDINGS  
CUMULATIVE PROPERTY SCHEDULE

June 30, 2008

Description	ID	Date
Light Fixtures	132	31-Jul-93
Handrail	178	20-May-94
Engineering	176	13-Jul-93
Site Fees/Plans	118	02-Aug-93
Construction	136	02-Aug-93
Site Fees/Plans	120	02-Aug-93
Site Fees/Plans	119	02-Aug-93
Site Fees/Plans	122	02-Aug-93
Martin St. Furn	180	20-Jun-94
New Asphalt	137	31-Dec-93
Sprinkler System	133	31-Aug-93
Gutters and Painting	135	31-Dec-93
Deck	179	20-May-94
Property Purchase	121	02-Aug-93
Reroof John St.	117	02-Aug-93
Buildings - Martin	234	01-Jul-94
Mongomery Construction - Drywall/Renovations	352	01-Aug-03
John Marshall - Roof Repairs	352	01-Aug-03
John Marshall - Roof Repairs	352	01-Aug-03
Mongomery Construction - Addtl Costs	352	01-Aug-03
Elevator Replacement	352	01-Nov-06
Water Line/Sprinkler/Fire Alarm/General Rehab and Replacement		01-Apr-05
Grove Center Roof Repairs		13-Jun-06
Grove Center Fire Alarm Install		15-May-08
Mid Atlantic sprinkler		11-Apr-06
Fencing at Unity House - WV Ave	351	19-Jun-03
Sewage Main repairs - Unity - WV Ave	353	06-Aug-03

TOTALS 6/30/2008

\$

See Independent Auditors' Report

EASTRIDGE HEALTH SYSTEMS

SCHEDULE OF BHHF FUNDING STATUS

Year Ended June 30, 2008

<u>State Account Number</u>	<u>Current Year Award Amount</u>	<u>Award Extended from Prior Year</u>	<u>Award Deferred Reveune July 1, 2007</u>
8793-2008-2891-096-128-14152	\$ 127,386	\$ -	\$ -
8793-2008-2892-096-128-14152	74,850	-	-
8793-2008-2885-096-128-14152	131,000	-	-
8794-2008-2914-096-128-14153	11,191	-	-
0525-2008-3065-219-252/258	619,324	-	-
0525-2008-2851-219-252/258	191,294	-	-
0525-2008-2851-219-252/258	139,632	-	-
0525-2008-3041-219-252/258	325,547	-	-
0525-2008-3702-219-252/258	254,579	-	-
0525-2008-2867-219-252/258	209,292	-	-
0525-2008-2851-219-252/258	25,000	-	-
0525-2008-2870-221-252/258	73,912	-	-
0525-2008-2867-219-252/258	184,864	-	-
0525-2008-2885-219-252/258	81,800	-	-
0525-2008-2891-219-252/258	95,014	-	-
0525-2007-3701-219-252	51,510	-	-
0525-2007-0506-219-083	<u>395,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,991,195</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditors' Report.

<u>Amount Earned and Billed</u>	<u>Deferred Revenue June 30, 2008</u>	<u>Amount not Billed</u>	<u>Amount Collected in Current Year</u>
\$ 127,386	\$ -	\$ -	\$ 127,386
74,850	-	-	72,495
131,000	-	-	100,554
-	-	11,191	-
619,324	-	-	619,324
189,329	-	1,965	144,429
139,632	-	-	139,632
325,547	-	-	325,547
210,418	-	44,161	145,716
209,292	-	-	209,292
25,000	-	-	16,993
60,918	-	12,994	40,048
184,864	-	-	95,180
81,800	-	-	81,800
95,014	-	-	95,014
51,510	-	-	51,510
<u>395,000</u>	<u>-</u>	<u>-</u>	<u>395,000</u>
<u>\$ 2,920,884</u>	<u>\$ -</u>	<u>\$ 70,311</u>	<u>\$ 2,659,920</u>

**EASTRIDGE HEALTH SYSTEMS  
BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES**

**SCHEDULE OF STANDARDIZED FINANCIAL STATEMENTS - BALANCE SHEET  
FOR COMPREHENSIVE AND MR/DD FACILITIES  
ACCRUAL BASIS**

June 30, 2008

**ASSETS**

**CURRENT ASSETS:**

1	Cash	\$ 55,119
2	Short-term investments	-
3	Accounts receivable - BHHF	323,291
4	Accounts receivable - Client	41,275
5	Accounts receivable - Medicaid	115,529
6	Accounts receivable - Medicaid MR/DD waiver	359,037
7	Accounts receivable - Other	195,519
7a	Allowance for doubtful accounts	(124,941)
8	Inventory	4,530
9	Prepaid/Other	<u>77,137</u>
10	<b>TOTAL CURRENT ASSETS</b> (Total of lines 1-9)	<b>1,046,496</b>

**NON-CURRENT ASSETS:**

**FIXED ASSETS**

11	Property, land, and equipment - BHHF	683,298
12	Less accumulated depreciation	(254,748)
13	Property, land, and equipment - Other	2,246,547
14	Less accumulated depreciation	<u>(1,626,237)</u>
15	<b>Total property, land, and equipment (NET)</b>	<b>1,048,860</b>

**OTHER NON-CURRENT ASSETS:**

16	Long-term investments	2,558
17	Other	-
18	<b>TOTAL ASSETS</b>	<b><u>\$ 2,097,914</u></b>

(Total of lines 10, 15, 16, and 17)

**LIABILITIES**

**CURRENT LIABILITIES:**

19	Accounts payable	536,610
20	Taxes payable	77,248
20a	Provider taxes payable	16,642
21	Line of credit - payable	556,050
22	Short-term notes payable	44,748
23	Accrued expenses	341,275
24	Other current liabilities	<u>55,465</u>
25	<b>TOTAL CURRENT LIABILITIES</b> (Total of lines 19-24)	<b>1,628,038</b>



EASTRIDGE HEALTH SYSTEMS  
BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES

SCHEDULE OF STANDARDIZED FINANCIAL STATEMENTS - BALANCE SHEET  
FOR COMPREHENSIVE AND MR/DD FACILITIES  
ACCRUAL BASIS

June 30, 2008

<b>LONG-TERM LIABILITIES</b>		
26.	Long-term notes payable	358,828
27.	Other long-term liabilities	-
28.	<b>TOTAL LIABILITIES</b>	<u>1,986,866</u>
	(Total of lines 25, 26, and 27)	
<b>NET ASSETS</b>		
29.	Unrestricted net assets	111,048
30.	Board designated net assets	-
31.	Permanently restricted net assets	<u>-</u>
32.	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,097,914</u>
	(Total of lines 26-31)	

EASTRIDGE HEALTH SYSTEMS  
BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES

SCHEDULE OF STANDARDIZED FINANCIAL STATEMENTS -  
STATEMENT OF ACTIVITY FOR COMPREHENSIVE AND MR/DD FACILITIES  
ACCRUAL BASIS

Year Ended June 30, 2008

**REVENUE AND SUPPORT**

1.	Charity care	\$ -
1a.	Charity care (BHHF Target Funds)	(162,864)
1b.	Charity care (BHHF Non-target Funds)	(181,484)
1c.	Charity care	-
1d.	Charity care	-
1e.	Charity care	-
1f.	Charity care	-
1g.	Charity care	(8,614)
1h.	Contractual write-off charity	-
1i.	Charity care revenue	344,348
1j.	Supportive/Alternative svcs. rev.	8,614
	Total (Should equal zero)	-
2.	Gross client service revenue	5,593,458
3.	Contractual adjustments (Target Funds)	(162,864)
3a.	Contractual adjustments (Non-target Funds)	(724,073)
4.	Net client service revenue	4,706,521
	Net client service revenue	
5.	Medicaid (Target Funds)	-
5a.	Medicaid (Non-target Funds)	664,612
6.	Medicaid MR/DD waiver (Non-target Funds)	3,415,420
7.	ICF/MR (Non-target Funds)	-
8.	Private pay (Non-target Funds)	251,760
8a.	Private pay (BHHF Target Funds)	-
8b.	Private pay (BHHF Non-target Funds)	-
9.	Other client service revenue (Target Funds)	-
9a.	Other client service revenue (Non-target Funds)	374,729
10.	Total net client service revenue (Line 10 must agree with line 4)	4,706,521
11.	BHHF support	3,079,319
12.	Other/Public support	-
13.	Other	384,726
14.	TOTAL REVENUE AND SUPPORT (Total of lines 10-13)	8,170,566

EASTRIDGE HEALTH SYSTEMS  
BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES

SCHEDULE OF STANDARDIZED FINANCIAL STATEMENTS -  
STATEMENT OF ACTIVITY FOR COMPREHENSIVE AND MR/DD FACILITIES  
ACCRUAL BASIS

Year Ended June 30, 2008

<b>EXPENSES</b>		
15	Salaries	4,123,129
16	Fringe benefits	1,030,954
17	Contractual services	956,402
18	Provider tax	189,488
18a	Bad debt	88,339
18b	Bad debt (BHHF Target Funds)	-
18c	Bad debt (BHHF Non-target Funds)	-
19	Depreciation expense	96,656
20	Other expenses	<u>1,534,458</u>
21	TOTAL EXPENSES (Total of lines 15-20)	<u>8,019,426</u>
22	NET INCOME (LOSS)	<u>\$ 151,140</u>

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2008 and 2007

	EastRidge Health Systems	Nar Roberts, Jr., Incorporated	Hoffmaster Homes, Incorporated	Eliminating Entries
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 55,119	\$ 124,496	\$ 73,402	\$ -
Grants and contracts receivable	345,758	-	-	-
Client fees receivable, less allowance for doubtful accounts	531,547	6,557	-	-
Related party receivable	32,405	-	-	-
Other current assets	81,667	980	133	-
Total current assets	<u>1,046,496</u>	<u>132,033</u>	<u>73,535</u>	<u>-</u>
Property and equipment, net	1,048,860	1,126,283	330,422	-
Investment	2,558	-	-	-
Total assets	<u>2,097,914</u>	<u>1,258,316</u>	<u>403,957</u>	<u>-</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued expenses	1,008,335	5,618	3,177	-
Accrued provider tax	16,642	-	-	-
Related party payable	-	-	-	-
Current maturities of long-term obligations	160,396	-	-	-
Note payable - line of credit	556,050	-	-	-
Deferred revenue	2,263	-	-	-
Total current liabilities	<u>1,743,686</u>	<u>5,618</u>	<u>3,177</u>	<u>-</u>
Long-term obligations, less current maturities	243,180	-	-	-
Total liabilities	<u>1,986,866</u>	<u>5,618</u>	<u>3,177</u>	<u>-</u>
Unrestricted net assets	111,048	1,252,698	400,780	-
Total liabilities and net assets	<u>\$ 2,097,914</u>	<u>\$ 1,258,316</u>	<u>\$ 403,957</u>	<u>\$ -</u>

See Independent Auditors' Report.

2008	2007
<u>Consolidated</u>	<u>Consolidated</u>
\$ 253,017	\$ 265,849
345,758	118,814
538,104	500,294
32,405	-
<u>82,780</u>	<u>79,010</u>
<u>1,252,064</u>	<u>963,967</u>
2,505,565	2,522,675
<u>2,558</u>	<u>2,558</u>
<u>3,760,187</u>	<u>3,489,200</u>
1,017,130	858,948
16,642	15,120
-	-
160,396	42,161
556,050	617,000
<u>2,263</u>	<u>2,260</u>
<u>1,752,481</u>	<u>1,535,489</u>
<u>243,180</u>	<u>343,585</u>
<u>1,995,661</u>	<u>1,879,074</u>
<u>1,764,526</u>	<u>1,610,126</u>
<u>\$ 3,760,187</u>	<u>\$ 3,489,200</u>

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITY

Years Ended June 30, 2008 and 2007

	EastRidge Health Systems	Nar Roberts, Jr , Incorporated	Hoffmaster Homes, Incorporated	Eliminating Entries
Revenues and other support:				
Federal funds	\$ 333,236	\$ 27,992	\$ 2,701	\$ -
State and other grants	2,845,867	-	-	-
Patient service fees, net	4,619,527	-	-	-
Interest income	6	70	60	-
Other income	112,054	987	-	-
Donated facility	157,500	-	-	-
Room and board	102,376	49,112	61,005	-
Total revenues and other support	<u>8,170,566</u>	<u>78,161</u>	<u>63,766</u>	<u>-</u>
Expenses:				
Salaries and wages	4,123,129	-	-	-
Employee benefits	1,030,954	-	-	-
Contracted services and professional fees	956,402	11,341	2,193	-
Repairs and maintenance	91,112	15,610	6,975	-
Supplies	181,396	5,150	1,750	-
Utilities	141,811	30,995	13,233	-
Staff development and travel	44,606	1,535	626	-
Advertising	31,000	60	-	-
Provision for doubtful accounts	88,339	-	-	-
Occupancy	120,372	-	-	-
Depreciation	96,656	29,818	10,143	-
Taxes	197,969	50	-	-
Insurance	250,655	-	-	-
Telephone	57,992	1,772	1,551	-
Interest	72,873	1,262	-	-
Donated facility	157,500	-	-	-
Equipment rental	40,967	-	-	-
Other	335,693	1,287	3,316	-
Total expenses	<u>8,019,426</u>	<u>98,880</u>	<u>39,787</u>	<u>-</u>
Change in net assets	151,140	(20,719)	23,979	-
Net assets, unrestricted - beginning of year	<u>(40,092)</u>	<u>1,273,417</u>	<u>376,801</u>	<u>-</u>
Net assets, unrestricted - end of year	<u>\$ 111,048</u>	<u>\$ 1,252,698</u>	<u>\$ 400,780</u>	<u>\$ -</u>

See Independent Auditors' Report.

2008	2007
<u>Consolidated</u>	<u>Consolidated</u>
\$ 363,929	\$ 350,441
2,845,867	2,489,265
4,619,527	4,082,701
136	414
113,041	133,215
157,500	157,500
<u>212,493</u>	<u>221,940</u>
<u>8,312,493</u>	<u>7,435,476</u>
4,123,129	3,619,298
1,030,954	923,116
969,936	950,509
113,697	130,859
188,296	183,349
186,039	226,630
46,767	42,709
31,060	78,983
88,339	25,000
120,372	119,302
136,617	134,274
198,019	174,255
250,655	265,492
61,315	70,250
74,135	63,564
157,500	157,500
40,967	54,447
<u>340,296</u>	<u>323,163</u>
8,158,093	7,542,700
154,400	(107,224)
<u>1,610,126</u>	<u>1,717,350</u>
<u>\$ 1,764,526</u>	<u>\$ 1,610,126</u>

**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**

The Board of Directors  
EastRidge Health Systems  
Martinsburg, West Virginia

We have audited the financial statements of EastRidge Health Systems (the Agency) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we consider the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

#### Compliance and Other Matters

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

The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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



October 7, 2009

EASTRIDGE HEALTH SYSTEMS  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2008

**2008-1 Journal Entry and Review Process**

Condition:

We noted that general journal entries are posted to the general ledger by accounting personnel without supervisory review and approval.

Criteria:

All transactions that are posted to the general ledger should be subjected to appropriate supervisory review and approval to ensure that the transaction is properly initiated and recorded in the appropriate accounts and at the appropriate amount.

Effect:

Without appropriate supervisory review, errors or irregularities in the financial statements may not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause:

Formal procedures are not in place to require supervisory review and approval of general journal entries initiated by the accountant or contract accountant and recorded in the general ledger.

Recommendation:

Management should develop procedures to ensure that all significant general journal entries posted to the general ledger have been reviewed and approved by supervisory personnel with the requisite knowledge of the Agency's operations and the accounting principles used in the preparation of its financial statements.

Management Response:

EastRidge and the contractual accounting staff will develop a process of supervisory approval of general journal entries