

Audited Financial Statements

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

Years Ended June 30, 2009 and 2008

DHHR - Finance

APR 19 2011

Date Received

Gibbons
& Kawash
Certified Public Accountants

Audited Financial Statements

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S 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, 2009 and 2008, 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, 2009 and 2008, and the changes in their net assets and their cash flows for the years 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 April 5, 2011, 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 should be considered in 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). The accompanying information shown on pages 23 to 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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.

Johnson & Kawash

April 5, 2011

DHHR - Finance

APR 19 2011

Date Received

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u> (As Restated)
Current assets:		
Cash and cash equivalents	\$ 231,152	\$ 254,279
Grants and contracts receivable	169,620	345,758
Client fees receivable, less allowance for doubtful accounts of \$259,035 in 2009 and \$124,941 in 2008	860,590	538,104
Other current assets	<u>77,919</u>	<u>83,328</u>
Total current assets	<u>1,339,281</u>	<u>1,221,469</u>
Property and equipment, less accumulated depreciation	2,463,543	2,520,730
Investment	<u>2,558</u>	<u>2,558</u>
Total assets	<u>\$ 3,805,382</u>	<u>\$ 3,744,757</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 998,895	\$ 1,017,130
Accrued provider tax	-	16,642
Current maturities of long-term debt	58,189	160,396
Note payable - line of credit	719,028	556,050
Deferred revenue	<u>17,740</u>	<u>2,263</u>
Total current liabilities	<u>1,793,852</u>	<u>1,752,481</u>
Long-term debt, less current maturities	<u>260,490</u>	<u>317,152</u>
Total liabilities	<u>2,054,342</u>	<u>2,069,633</u>
Unrestricted net assets	<u>1,751,040</u>	<u>1,675,124</u>
Total liabilities and net assets	<u>\$ 3,805,382</u>	<u>\$ 3,744,757</u>

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

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Years Ended June 30, 2009 and 2008

	2009	2008 (As Restated)
Changes in unrestricted net assets:		
Revenues:		
Federal funds	\$ 197,897	\$ 363,929
State and other grants	2,232,985	2,845,867
Patient service fees, net	4,870,023	4,619,527
Interest income	161	136
Other income	77,738	113,041
Donated facility	157,500	157,500
Room and board	157,506	212,493
	<u>7,693,810</u>	<u>8,312,493</u>
Expenses:		
Salaries and wages	3,758,487	4,123,129
Employee benefits	845,101	1,030,954
Contracted services and professional fees	1,046,573	971,061
Repairs and maintenance	116,331	118,390
Supplies	158,602	190,486
Utilities	188,534	193,254
Staff development and travel	71,111	46,767
Advertising	20,535	31,060
Provision for doubtful accounts	115,996	88,339
Occupancy	99,474	120,372
Depreciation	129,001	136,617
Taxes	184,738	198,044
Insurance	226,648	250,655
Telephone	62,375	62,320
Interest	58,644	72,873
Donated facility	157,500	157,500
Equipment rental	39,824	40,967
Other	338,420	340,735
	<u>7,617,894</u>	<u>8,173,523</u>
Increase in net assets	75,916	138,970
Net assets, beginning of year	<u>1,675,124</u>	<u>1,536,154</u>
Net assets, end of year	<u>\$ 1,751,040</u>	<u>\$ 1,675,124</u>

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

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008 (As Restated)
Cash flows from operating activities:		
Increase in net assets	\$ 75,916	\$ 138,970
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	129,001	136,617
Loss on disposal of fixed assets	-	1,232
Provision for bad debts	115,996	88,339
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(438,482)	(126,149)
Grants receivable	176,138	(226,944)
Prepaid and other assets	5,409	(4,318)
Increase (decrease) in:		
Accounts payable and accrued expenses	(34,877)	159,704
Deferred revenue	15,477	3
Net cash provided by operating activities	<u>44,578</u>	<u>167,454</u>
Cash flows used in investing activities:		
Purchases of property and equipment	<u>(71,814)</u>	<u>(135,904)</u>
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	162,978	(60,950)
Proceeds from issuance of long-term debt	-	64,490
Principal payments on long-term debt	<u>(158,869)</u>	<u>(46,660)</u>
Net cash provided by (used in) financing activities	<u>4,109</u>	<u>(43,120)</u>
Net decrease in cash	(23,127)	(11,570)
Cash and cash equivalents, beginning of year	<u>254,279</u>	<u>265,849</u>
Cash and cash equivalents, end of year	<u>\$ 231,152</u>	<u>\$ 254,279</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 and Principles of Consolidation

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 Berkeley, 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. 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 \$68,035 and \$55,084 at June 30, 2009 and 2008, 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, 2009, the equity of Nar Roberts Jr., Incorporated, and Hoffmaster Homes of Martinsburg, Inc., included \$1,198,585 and \$356,110, 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.

Subsequent Events

The date to which events occurring after June 30, 2009 have been evaluated for possible adjustment to or disclosure in the financial statements is April 5, 2011, which is the date on which the financial statements were available to be issued.

2 - PRIOR PERIOD RESTATEMENT

The Agency has restated its' net assets as of July 1, 2007, to reflect previously unrecorded transactions. As a result, beginning net assets for the year ended June 30, 2008 have been decreased by \$73,972.

The Agency has also restated its' net assets as of June 30, 2008 to reflect previously unrecorded transactions. As a result certain 2008 balances have been restated as follows: current assets increased by \$1,810, net property plant and equipment increased by \$15,165, long term obligations increased by \$73,972, and expenses increased by \$15,430, resulting in a decrease in net assets of \$15,430 for the year ended June 30, 2008. Net assets as of July 1, 2007 decreased by \$73,972.

3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30	
	2009	2008
Land	\$ 309,981	\$ 231,381
Buildings and improvements	2,792,067	2,562,871
Vehicles	237,848	233,527
Leasehold improvements	388,047	388,047
Furniture and equipment	979,019	968,590
Land and buildings held for resale	82,594	350,873
Construction in progress	15,535	-
	<u>4,805,091</u>	<u>4,735,289</u>

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

3 - PROPERTY AND EQUIPMENT (Continued)

Less accumulated depreciation and amortization	2,341,548	2,214,559
	\$ 2,463,543	\$ 2,520,730

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 \$707,121 and \$281,036 at June 30, 2009, and \$683,298 and \$254,748 at June 30, 2008, 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

4 - DEBT

Long-term debt consisted of the following:

	2009	2008
Note payable to government agency, payable in monthly installments of \$4,167, non-interest bearing, discounted at a rate of 8%, final payment due June 2012	\$ 128,158	\$ 170,671
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	116,549	119,275
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
Note payable to government agency, payable in monthly installments of \$821, non-interest bearing, discounted at a rate of 6%, final payment due June 2019	73,972	73,972
	318,679	477,548
Less current portion	58,189	160,396
	\$ 260,490	\$ 317,152

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

4 - DEBT (Continued)

Maturities of long-term debt are as follows:

<u>June 30</u>	
2010	\$ 58,189
2011	62,080
2012	61,834
2013	19,661
2014	68,107
Thereafter	<u>48,808</u>
	<u>\$ 318,679</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, 2009 and 2008, the balance outstanding under this line of credit was \$719,028 and \$556,050, respectively. The line of credit has been extended through November 25, 2011.

Cash paid for interest during the years ended June 30, 2009 and 2008, was \$58,644 and \$72,873, respectively.

5 - 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, 2009 and 2008. 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.

The Agency leases certain facilities and office equipment under operating lease agreements that expire in various years through December 31, 2018. Rent expense on all operating leases was \$139,301 and \$161,349 for the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year Ended June 30</u>	
2010	\$ 123,545
2011	124,215
2012	124,594
2013	123,499
2014	57,431
Thereafter	<u>123,912</u>
	<u>\$ 677,196</u>

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

6 - 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, 2009 and 2008, were \$2,467 and \$11,649, respectively.

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 \$80,223 and \$89,425 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, were \$6,011 and \$1,582, respectively.

7 - 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.

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

7 - THIRD-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY (Continued)

Revenue recognized from client services is as follows for the years ended June 30, 2009 and 2008:

	Year Ended June 30, 2009		
	Gross Patient Revenue	Less: Contractual Adjustments, Charity Care	Net Patient Revenue
Medicaid	\$ 824,546	\$ 234,025	\$ 590,521
Medicaid waiver	3,449,380	91,916	3,357,464
Medicare	100,038	50,099	49,939
Private pay	328,163	120,442	207,721
Insurance	167,599	60,871	106,728
Uncompensated care	327,186	327,186	-
Other	571,099	13,449	557,650
Total	\$ 5,768,011	\$ 897,988	\$ 4,870,023

	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
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

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

7 - THIRD-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY (Continued)

Grants received from the State of West Virginia, including federal grants paid through the state, amounted to approximately \$2,285,029, which comprised 30% of total revenues. Should a significant reduction in this funding occur, the Agency's programs and activities would be significantly impacted.

8 - 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.

9 - 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 Section 8 Housing and Urban Development facilities. Expenses related to providing these services for the years ended June 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 5,562,415	\$ 6,197,929
Housing	168,848	160,942
General and administrative	<u>1,886,631</u>	<u>1,814,652</u>
	<u>\$ 7,617,894</u>	<u>\$ 8,173,523</u>

10 - 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.

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

10 – CONTINGENCIES (Continued)

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.

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.

11 - FINANCIAL CONDITION

EastRidge Health Systems, a component of the consolidated Agency, reported unrestricted net assets of \$196,345 and \$72,004 as of June 30, 2009, and June 30, 2008, respectively. In addition, current liabilities exceed current assets by \$575,978 and \$697,190 at June 30, 2009 and 2008, 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 stepdown services to clients from hospitals and other providers; 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. The Bureau of Health and Healthcare Facilities has indicated that EastRidge will receive an \$85,000 addition to the unrestricted funds in FY 11. EastRidge currently has one property for sale with a current market value of approximately \$200,000. Net proceeds would be used to reduce liabilities in the amount of approximately \$100,000.

12 - 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, 2009 and 2008, the Agency incurred expenses under the contract of \$146,913 and \$203,006, respectively, and has recorded a related payable at June 30, 2009 and 2008, under the contract of \$76,374 and \$138,366, respectively.

ACCOMPANYING INFORMATION

EASTRIDGE HEALTH SYSTEMS
SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2009

State Grantor/Program Title	State Grantor's Number	Program or Award Amount	Deferred Revenue July 1, 2008	Disbursements/Expenditures	Deferred Revenue June 30, 2009
<u>West Virginia Department of Health and Human Resources</u>					
Uncompensated Care	0525-2009-3065-219-252/258	\$ 621,281	-	\$ 621,281	-
MI-Client Crisis Improvement	0525-2009-2851-219-252/258	191,294	-	191,294	-
Electronic Medical Records	0525-2009-2849-219-252/258	8,000	-	8,000	-
Supportive Services	0525-2009-3041-219-252/258	325,543	-	325,543	-
Community Support Funds	0525-2009-3702-219-252/258	154,579	-	142,649	-
DD-Client Core Services	0525-2009-2870-219-252/258	209,300	-	209,300	-
Case Mgmt Improvement	0525-2009-2851-219-252/258	25,000	-	25,000	-
Family Support	0525-2009-2870-221-252/258	72,385	-	72,385	-
Special Needs	0525-2009-2851-219-252/258	184,864	-	184,864	-
PI Shelter	0525-2009-2885-219-252/258	81,800	-	81,800	-
MH-Client Core Services	0525-2009-2885-219-252/258	139,633	-	139,633	-
Care Coordinator Improvement	0525-2009-3701-219-252	40,000	-	5,105	-
		<u>\$ 2,053,679</u>	<u>-</u>	<u>\$ 2,006,854</u>	<u>-</u>
<u>Total Department of Health and Human Resources</u>					
		<u>\$ 127,430</u>	<u>-</u>	<u>\$ 127,430</u>	<u>-</u>
<u>West Virginia Department of Education and the Arts</u>					
		<u>\$ 2,181,109</u>	<u>-</u>	<u>\$ 2,134,284</u>	<u>-</u>
<u>Division of Rehabilitation Services</u>					
Rehabilitative Services	100214	100214	-	100214	-
		<u>\$ 2,181,109</u>	<u>-</u>	<u>\$ 2,134,284</u>	<u>-</u>
<u>Total State Awards</u>					

See Independent Auditor's Report.

EASTRIDGE HEALTH SYSTEMS

BHHF ASSETS - EQUIPMENT AND AUTOMOBILES
CUMULATIVE PROPERTY SCHEDULE

June 30, 2009

Description	Asset Type	ID	Date	Life	Amount	State Account Number	Serial
File Cabinet	Furniture	173	27-Jun-94	5	318	Unknown	
Freezer	Furniture	174	30-Jun-94	5	529	Unknown	
Furniture	Furniture	114	30-Jun-93	5	761	Unknown	
Computers	Computer	338	01-Jul-99	5	1,853	Unknown	
Furniture	Furniture	113	25-Feb-93	5	2,046	Unknown	
Gateway Computers	Computer	330	01-May-99	5	5,050	Unknown	
Computers	Computer	115	30-Oct-92	5	5,778	Unknown	
Computers	Computer	98	27-Oct-92	5	7,847	Unknown	
5 Drawer Lateral Filing Cabinet	Furniture		03-Jun-03	5	731	0525-2007-2890-219-252/258	
94 Van	Vehicle	143	31-Dec-93	5	19,468	Unknown	
2000 Van	Vehicle	349	01-Sep-00	5	39,967	Unknown	

TOTALS 6/30/2009

\$ 84,348

See Independent Auditors' Report.

EASTRIDGE HEALTH SYSTEMS
 BHHF ASSETS - LEASEHOLDS, LAND, AND BUILDINGS
 CUMULATIVE PROPERTY SCHEDULE

June 30, 2009

Description	ID	Date	Amount	Life
Light Fixtures	132	31-Jul-93	231	15
Handrail	178	20-May-94	300	15
Engineering	176	13-Jul-93	1,168	5
Site Fees/Plans	118	02-Aug-93	1,293	30
Construction	136	02-Aug-93	1,333	30
Site Fees/Plans	120	02-Aug-93	1,573	30
Site Fees/Plans	119	02-Aug-93	1,859	30
Site Fees/Plans	122	02-Aug-93	2,112	30
Martin St. Furn	180	20-Jun-94	2,669	5
New Asphalt	137	31-Dec-93	3,045	15
Sprinkler System	133	31-Aug-93	5,250	30
Gutters and Painting	135	31-Dec-93	9,760	15
Deck	179	20-May-94	13,475	15
Property Purchase	121	02-Aug-93	23,800	30
Reroof John St.	117	02-Aug-93	117,142	30
Buildings - Martin	234	01-Jul-94	52,550	30
Montgomery Construction - Drywall/Renovations	352	01-Aug-03	11,569	15
John Marshall - Roof Repairs	352	01-Aug-03	1,500	15
John Marshall - Roof Repairs	352	01-Aug-03	495	15
Montgomery Construction - Addtl Costs	352	01-Aug-03	1,756	15
Elevator Replacement	352	01-Nov-06	129,045	20
Water Line/Sprinkler/Fire Alarm/General Rehab and Replacement		01-Apr-05	58,810	30
Grove Center Roof Repairs		13-Jun-06	135,000	20
Grove Center Fire Alarm Install		15-May-08	3,386	20
Mid Atlantic sprinkler		11-Apr-06	17,785	20
Fencing at Unity House - WV Ave	351	19-Jun-03	1,355	10
Sewage Main repairs - Unity - WV Ave	353	06-Aug-03	689	10
Grove Center Fire Alarm install		02-Oct-08	13,062	20
Grove Center Fire Alarm install		01-Dec-08	784	20
Fire Alarm Install		22-Dec-08	2,300	20
Fire Alarm Install		31-Mar-09	4,000	20
Fire Alarm Install		29-Apr-09	3,677	20
TOTALS 6/30/2009			\$ 622,773	

See Independent Auditors' Report.

EASTRIDGE HEALTH SYSTEMS
 SCHEDULE OF BHHF FUNDING STATUS

Year Ended June 30, 2009

State Account Number	Current Year Award Amount	Award Extended from Prior Year	Award Deferred Revenue July 1, 2008	Amount Earned and Billed	Deferred Revenue June 30, 2009	Amount not Billed	Amount Collected in Current Year
8723-2009-2849-096-128-14014	\$ 25,500	\$ -	\$ -	\$ 10,821	\$ 14,679	\$ -	\$ 25,500
8793-2009-2892-096-128-15582	74,850	-	-	37,506	-	37,344	31,361
8793-2009-2885-096-128-15582	131,000	-	-	131,000	-	-	131,000
0525-2009-2849-219-252/258	8,000	-	-	8,000	-	-	8,000
0525-2009-3065-219-252/258	621,281	-	-	621,281	-	-	621,281
0525-2009-2851-219-252/258	191,294	-	-	191,294	-	-	109,859
0525-2009-2851-219-252/258	139,633	-	-	139,633	-	-	139,633
0525-2009-3041-219-252/258	325,543	-	-	325,543	-	-	325,543
0525-2009-3702-219-252/258	154,579	-	-	142,649	-	11,930	112,598
0525-2009-2870-219-252/258	209,300	-	-	209,300	-	-	209,300
0525-2009-2851-219-252/258	25,000	-	-	25,000	-	-	19,469
0525-2009-2870-221-252/258	72,385	-	-	72,385	-	-	59,956
0525-2009-2851-219-252/258	184,864	-	-	184,864	-	-	172,771
0525-2009-2885-219-252/258	81,800	-	-	81,800	-	-	69,791
0525-2009-3701-219-252	40,000	-	-	5,105	-	34,895	5,105
Total	\$ 2,285,029	\$ -	\$ -	\$ 2,186,181	\$ 14,679	\$ 84,169	\$ 2,041,167

See Independent Auditor's Report.

EASTRIDGE HEALTH SYSTEMS

BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES
FOR COMPREHENSIVE AND MR/DD FACILITIES
ACCRUAL BASIS

June 30,2009

ASSETS

CURRENT ASSETS:

1.	Cash	\$	67,363
2.	Short Term Investments		-
3.	Accounts Receivable - OBHS		154,480
4.	Accounts Receivable - Client		38,947
5.	Accounts Receivable - Medicaid		243,599
6.	Accounts Receivable - Medicaid MR/DD Waiver		614,631
7.	Accounts Receivable - Other		266,358
7a.	Allowance for Doubtful Accounts		(259,035)
8.	Inventory		666
9.	Prepaid/Other		77,097
10.	TOTAL CURRENT ASSETS		<u>1,204,107</u>
	(Total of lines 1-9)		

NON-CURRENT ASSETS:

FIXED ASSETS

11.	Property, Land and Equipment - OBHS		707,120
12.	Less Accumulated Depreciation		(281,036)
13.	Property, Land and Equipment - Other		2,292,027
14.	Less Accumulated Depreciation		<u>(1,687,857)</u>
15.	Total Property, Land and Equipment (NET)		1,030,254

OTHER NON-CURRENT ASSETS

16.	Long-Term Investments		2,558
17.	Other		-
18.	TOTAL ASSETS	\$	<u>2,236,919</u>
	(Total of lines 10, 15, 16 and 17)		

(Continued)

EASTRIDGE HEALTH SYSTEMS

BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES
FOR COMPREHENSIVE AND MR/DD FACILITIES

ACCRUAL BASIS

(Continued)

June 30,2009

LIABILITIES

CURRENT LIABILITIES:

19	Accounts Payable	\$	432,500
20	Taxes Payable		60,412
20 A.	Provider Taxes Payable		-
21	Line of Credit - Payable		719,027
22	Short-Term Notes Payable		49,236
23	Accrued Expenses		297,741
24	Other Current Liabilities		<u>212,215</u>
25	TOTAL CURRENT LIABILITIES		1,771,131
	(Total of lines 19 through 24)		

LONG-TERM LIABILITIES:

26	Long-Term Notes Payable		269,443
27	Other Long-Term Liabilities		<u>-</u>
28.	TOTAL LIABILITIES		2,040,574
	(Total of lines 25, 26 and 27)		

NET ASSETS

29.	Unrestricted Net Assets		196,345
30.	Temporarily Restricted Net Assets		-
31.	Permanently Restricted Net Assets		<u>-</u>
32.	TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,236,919</u>
	(Total of lines 28 through 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

June 30, 2009

REVENUE AND SUPPORT

1.	Charity Care	\$ -
1a	Charity Care - Account 4311.1	(119,330)
1b	Charity Care - Account 4311.2	(207,856)
1c	Charity Care - Account 4312.1	-
1d	Charity Care - Account 4312.2	-
1e	Charity Care - Account 4314.1	-
1f	Charity Care - Account 4314.2	-
1g	Charity Care - Account 4315.1	(11,226)
1h	Contractual Write-Off Charity - Account 4337.1	-
1i	Charity Care Revenue - Account 4329	327,186
1j	Support/Alternative Svcs. Rev - Account 4358	<u>11,226</u>
	Total (Should equal zero)	-
2.	Gross Client Service Revenue	5,995,367
3.	Contractual Adjustments (Target Funds)	(119,330)
3a.	Contractual Adjustments (Non-Target Funds)	<u>(821,840)</u>
5.	Net Client Service Revenue	5,054,197
	Net Client Service Revenue	
6.	Medicaid (Target Funds)	-
6a.	Medicaid (Non-Target Funds)	582,886
7.	Medicaid MR/DD Waiver (Non-Target Funds)	3,357,464
8.	ICF/MR (Non-Target Funds)	-
9.	Private Pay (Non-Target Funds)	207,721
9a.	Private Pay (OBHS Target Funds)	-
9b.	Private Pay (OBHS Non-Target Funds)	-
10	Other Client Service Revenue (Target Funds)	-
10a	Other Client Service Revenue (Non-Target Funds)	<u>906,126</u>

(Continued)

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, 2009

11	Total Net Client Service Revenue	5,054,197
	(Line 11 must agree with line 5)	-
12.	OBHS Support	2,183,889
13	Other/Public Support	-
14.	Other	<u>185,500</u>
15.	TOTAL REVENUE AND SUPPORT	<u>7,423,586</u>
	(Total of line 11 through line 14)	
	EXPENSES	
16.	Salaries	3,758,487
17.	Fringe Benefits	845,101
18.	Contractual Services	914,531
19.	Provider Tax	176,708
19 A	Bad Debts	115,996
19 B	Bad Debts (BHHF Target Funds)	-
19 C	Bad Debts (BHHF Non-Target Funds)	-
20.	Depreciation Expense	89,317
21.	Other Expenses	<u>1,399,105</u>
22.	TOTAL EXPENSES	<u>7,299,245</u>
	(Total of line 16 through line 21)	
23.	NET INCOME (LOSS)	<u>\$ 124,341</u>
	(Line 15 minus line 22)	

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2009 and 2008

	<u>EastRidge Health Systems</u>	<u>Nar Roberts, Jr., Incorporated</u>	<u>Hoffmaster Homes, Incorporated</u>	<u>Eliminating Entries</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 67,363	\$ 137,968	\$ 25,821	\$ -
Grants and contracts receivable	169,620	-	-	-
Client fees receivable, less allowance for doubtful accounts	859,119	1,471	-	-
Related party receivable	30,241	-	-	(30,241)
Other current assets	<u>77,763</u>	<u>23</u>	<u>133</u>	<u>-</u>
Total current assets	<u>1,204,106</u>	<u>139,462</u>	<u>25,954</u>	<u>(30,241)</u>
Property and equipment, net	1,030,255	1,096,631	336,657	-
Investment	<u>2,558</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>2,236,919</u>	<u>1,236,093</u>	<u>362,611</u>	<u>(30,241)</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued expenses	985,924	6,470	6,501	-
Accrued provider tax	-	-	-	-
Related party payable	-	30,241	-	(30,241)
Current maturities of long-term obligations	58,189	-	-	-
Note payable - line of credit	719,028	-	-	-
Deferred revenue	<u>16,943</u>	<u>797</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>1,780,084</u>	<u>37,508</u>	<u>6,501</u>	<u>(30,241)</u>
Long-term obligations, less current maturities	<u>260,490</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,040,574</u>	<u>37,508</u>	<u>6,501</u>	<u>(30,241)</u>
Unrestricted net assets	<u>196,345</u>	<u>1,198,585</u>	<u>356,110</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 2,236,919</u>	<u>\$ 1,236,093</u>	<u>\$ 362,611</u>	<u>\$ (30,241)</u>

See Independent Auditor's Report.

<u>2009</u> <u>Consolidated</u>	<u>2008</u> <u>Consolidated</u> <u>(As Restated)</u>
\$ 231,152	\$ 254,279
169,620	345,758
860,590	538,104
-	-
<u>77,919</u>	<u>83,328</u>
<u>1,339,281</u>	<u>1,221,469</u>
2,463,543	2,520,730
<u>2,558</u>	<u>2,558</u>
<u>3,805,382</u>	<u>3,744,757</u>
998,895	1,017,130
-	16,642
-	-
58,189	160,396
719,028	556,050
<u>17,740</u>	<u>2,263</u>
<u>1,793,852</u>	<u>1,752,481</u>
<u>260,490</u>	<u>317,152</u>
<u>2,054,342</u>	<u>2,069,633</u>
<u>1,751,040</u>	<u>1,675,124</u>
<u>\$ 3,805,382</u>	<u>\$ 3,744,757</u>

EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITY

Years Ended June 30, 2009 and 2008

	EastRidge Health Systems	Nar Roberts, Jr., Incorporated	Hoffmaster Homes, Incorporated	Eliminating Entries
Revenues and other support:				
Federal funds	\$ 168,176	\$ 26,645	\$ 3,076	\$ -
State and other grants	2,232,985	-	-	-
Patient service fees, net	4,870,023	-	-	-
Interest income	1	109	51	-
Other income	83,477	1,960	-	(7,699)
Donated facility	157,500	-	-	-
Room and board	68,924	48,447	40,135	-
Total revenues and other support	<u>7,581,086</u>	<u>77,161</u>	<u>43,262</u>	<u>(7,699)</u>
Expenses:				
Salaries and wages	3,758,487	-	-	-
Employee benefits	845,101	-	-	-
Contracted services and professional fees	1,026,789	13,487	6,297	-
Repairs and maintenance	77,786	22,110	16,435	-
Supplies	153,370	1,889	3,343	-
Utilities	135,014	33,958	19,562	-
Staff development and travel	70,388	126	597	-
Advertising	20,535	-	-	-
Provision for doubtful accounts	115,996	-	-	-
Occupancy	99,474	-	-	-
Depreciation	89,319	29,652	10,030	-
Taxes	184,738	-	-	-
Insurance	226,648	-	-	-
Telephone	58,678	1,148	2,549	-
Interest	58,644	-	-	-
Donated facility	157,500	-	-	-
Equipment rental	39,824	-	-	-
Other	338,454	7,624	41	(7,699)
Total expenses	<u>7,456,745</u>	<u>109,994</u>	<u>58,854</u>	<u>(7,699)</u>
Change in net assets	124,341	(32,833)	(15,592)	-
Net assets, unrestricted - beginning of year, as restated	<u>72,004</u>	<u>1,231,418</u>	<u>371,702</u>	<u>-</u>
Net assets, unrestricted - end of year	<u>\$ 196,345</u>	<u>\$ 1,198,585</u>	<u>\$ 356,110</u>	<u>\$ -</u>

See Independent Auditor's Report.

<u>2009</u> <u>Consolidated</u>	<u>2008</u> <u>Consolidated</u> <u>(As Restated)</u>
\$ 197,897	\$ 363,929
2,232,985	2,845,867
4,870,023	4,619,527
161	136
77,738	113,041
157,500	157,500
<u>157,506</u>	<u>212,493</u>
<u>7,693,810</u>	<u>8,312,493</u>
3,758,487	4,123,129
845,101	1,030,954
1,046,573	971,061
116,331	118,390
158,602	190,486
188,534	193,254
71,111	46,767
20,535	31,060
115,996	88,339
99,474	120,372
129,001	136,617
184,738	198,044
226,648	250,655
62,375	62,320
58,644	72,873
157,500	157,500
39,824	40,967
<u>338,420</u>	<u>340,735</u>
<u>7,617,894</u>	<u>8,173,523</u>
75,916	138,970
<u>1,675,124</u>	<u>1,536,154</u>
<u>\$ 1,751,040</u>	<u>\$ 1,675,124</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 Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated April 5, 2011. 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 considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses


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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2009-1 and 2009-2 to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

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.



April 5, 2011

DHHR - Finance

APR 19 2011

Date Received

EASTRIDGE HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

2009-1 SUPERVISORY REVIEW AND APPROVAL

Condition:

Account reconciliations and bank reconciliations were not prepared on a timely basis. When completion of the reconciliations was attempted, in connection with preparation for the audit, they were not effectively reviewed or approved by the Chief Financial Officer, resulting in numerous adjusting entries for misidentified or omitted reconciliation items. Journal entries that were prepared by staff level employees were not being reviewed and approved by the Chief Financial Officer and supporting documentation for journal entries was not maintained.

Criteria:

Timely reconciliations of accounts and bank statements is an integral component of internal control and is crucial for the timely detection of accounting errors, bank errors, and unauthorized transactions. A key component of an effective system of internal control is timely supervisory review and approval of all significant account reconciliations, bank reconciliations, and journal entries prepared by staff level employees, which support the amounts reported in the financial statements. Documentation should be maintained to identify the individual performing the supervisory review and approval of account reconciliations and journal entries, as well as the date performed. Supporting documentation for all manual journal entries should be maintained.

Effect:

Without appropriate supervisory review and approval, 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. For the year ended June 30, 2009, cash, accounts receivable, accrued expenses, line of credit, debt, grant revenue, and various revenue and expense accounts contained material errors in the preliminary unaudited trial balance. These accounts were not accurately reconciled until 15 months after year end.

Cause:

Account reconciliations and bank reconciliations were not being performed timely. Procedures for supervisory review and approval of account reconciliations, bank reconciliations, and general journal entries initiated and recorded by the staff level employees were not performed. There is no formal process that requires supporting information be maintained for manual journal entries.

Recommendation:

We recommend that management implement policies and procedures to ensure that account reconciliations and bank reconciliations are being performed on a monthly basis and that the reconciliations are being reviewed in a timely manner. The reconciliations should be reviewed by the Chief Financial Officer for any unusual items, proper resolution of any such items, and such approval

EASTRIDGE HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

2009-1 SUPERVISORY REVIEW AND APPROVAL (Continued)

Recommendation (Continued):

should be documented. 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. Journal entries should be supported by appropriate documentation.

Management Response:

A new Chief Financial Officer (CFO) was hired in October of 2010 and the first major issue he addressed was preparation of the Fiscal Year 2009 financial statement audit. It became evident immediately that bank reconciliations were not being performed timely, that numerous accounts needed reconciliation and that supporting documentation for journal entries was inadequate. In order to address these weaknesses the CFO instituted the following processes:

1. Bank reconciliations are required to be completed on a monthly basis.
2. The CFO is reviewing and approving bank reconciliations monthly.
3. Supporting documentation is required on all manual journal entries.
4. The CFO is reviewing and approving all manual journal entries posted to the ledger.
5. Reconciliation schedules are being set up so accounts are reconciled regularly based on the activity and materiality of the balances.

Items 1-4 above were implemented prior to completion of work on the 2009 audit. Item 5 is partially in place and will be fully implemented in early 2012.

2009-2 FINANCIAL REPORTING

Condition:

We noted that complete and accurate financial statements were not available for review by the Board of Directors on a timely basis.

Criteria

Management has a responsibility to report accurate and timely financial information to the Board of Directors, grantors, creditors, and other outside parties. Internal control over financial reporting is a process designed by, or under the supervision of the Organization's management and those charged with governance, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other reports for internal and external purposes in accordance with generally accepted accounting principles. It also includes the effectiveness of levels of supervisory review and approval.

EASTRIDGE HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

2009-2 FINANCIAL REPORTING (Continued)

Effect:

The Organization is susceptible to the risk that errors, whether intentional or unintentional, could be made and not detected in a timely manner, causing financial statements and information to be misleading, and resulting in decisions by the Organization's management and those charged with governance to be made based on inaccurate or untimely information. In addition, this condition precludes the Board of Directors from providing effective oversight of the Organization.

Cause:

The Organization has not established policies to ensure these controls over financial reporting are in place or functioning as designed

Recommendation:

We recommend that controls and procedures be implemented to ensure accurate and timely financial reporting.

Management Response:

As noted in the previous Management Response, Eastridge has a new CFO in place. In preparation for the 2009 audit he noticed the accuracy issues highlighted in this finding. The steps implemented as presented in the response to Finding 2009-1 above will address the accuracy issues associated with this finding. Additionally, the CFO is heavily involved in managing and reviewing the statement production cycle and will make certain the financial reports are accurate and timely.