

APPALACHIAN COMMUNITY
HEALTH CENTER, INC.

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

YEARS ENDED JUNE 30, 2009 AND 2008

AND

INDEPENDENT AUDITORS' REPORTS

DHHR - Finance

NOV 30 2009

Date Received

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Appalachian Community Health Center, Inc.
Elkins, West Virginia

We have audited the accompanying statements of financial position of Appalachian Community Health Center, Inc. (the Center), a nonprofit organization, as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Appalachian Community Health Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2009 and 2008, and the changes in its net assets and its 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 November 13, 2009 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Center taken as a whole. The accompanying Schedule of State Grant Awards, Schedule of Expenditures of BHHF Federal Awards by State Account Number, Schedule of Expenditures of BHHF State Awards by State Account Number, Schedule of BHHF Funding Status for Purchase Orders #G080020 and #G090249, Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding, BHHF Standardized Financial Statements - Balance Sheet for Comprehensive and MR/DD Facilities, BHHF Standardized Financial Statements - Income Statement for Comprehensive and MR/DD Facilities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 2009 financial statements taken as a whole.



Charleston, West Virginia

November 13, 2009

DHHR - Finance

NOV 30 2009

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APPALACHIAN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,831	\$ 279,937
Investments	915,000	915,000
Patient receivables, less allowance for doubtful accounts and contractual adjustments: \$100,000 and \$250,000 in 2009 and 2008, respectively	403,807	315,226
Contract services receivable	110,600	110,833
Prepaid expenses and deposits	75,821	77,434
Other current assets	23,153	35,171
Total current assets	1,537,212	1,733,601
Property and equipment		
Land	114,276	114,276
Building	1,074,640	1,074,640
Equipment	1,257,095	1,243,763
Vehicles	442,354	442,354
	2,888,365	2,875,033
Less accumulated depreciation	2,513,538	2,438,243
Total property and equipment	374,827	436,790
	\$ 1,912,039	\$ 2,170,391
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 248,333	\$ 323,200
Accrued annual leave	120,084	138,071
Total current liabilities	368,417	461,271
Liability for pension benefits	587,191	440,279
Net assets - unrestricted	956,431	1,268,841
	\$ 1,912,039	\$ 2,170,391

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2009 AND 2008

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	<u>2009</u>	<u>2008</u>
Revenue and support		
Net patient service revenue	\$ 2,373,835	\$ 2,476,928
Support from West Virginia Bureau for Behavioral Health and Health Facilities	1,507,339	1,547,710
Support from other government programs	531,094	424,550
Other	54,297	89,673
Total revenue and support	<u>4,466,565</u>	<u>4,538,861</u>
Expenses		
Salaries and wages	2,448,174	2,481,875
Employee benefits	693,614	741,971
Contractual and professional	339,541	374,390
Travel	94,393	156,040
Telephone	67,212	67,079
Rent and utilities	137,436	128,633
Depreciation	77,649	102,895
Repairs, maintenance and small equipment	88,119	90,969
Insurance	120,446	140,522
Health care provider tax	95,709	119,744
Other	431,958	276,503
Total expenses	<u>4,594,251</u>	<u>4,680,621</u>
Change in unrestricted net assets before effect of pension-related changes other than net periodic pension cost.	(127,686)	(141,760)
Pension-related changes other than net periodic pension cost	<u>(184,724)</u>	<u>(179,238)</u>
CHANGE IN UNRESTRICTED NET ASSETS	(312,410)	(320,998)
Net assets - unrestricted, beginning of year	<u>1,268,841</u>	<u>1,589,839</u>
Net assets - unrestricted, end of year	<u>\$ 956,431</u>	<u>\$ 1,268,841</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (312,410)	\$ (320,998)
Adjustments		
Depreciation	77,649	102,895
Decrease (increase) in operating assets		
Patient receivables	(88,581)	(37,517)
Contract services receivable	233	(45,767)
Prepaid expenses and deposits	1,613	12,062
Other current assets	12,018	5,149
Increase (decrease) in operating liabilities		
Accounts payable and accrued payroll expense	(74,867)	47,708
Accrued annual leave	(17,987)	(9,583)
Accrued pension costs	146,912	121,948
Net cash provided (used) in operating activities	<u>(255,420)</u>	<u>(124,103)</u>
Cash flows from investing activities		
Cash purchases of property and equipment	(15,686)	-
Proceeds from sale of short-term investments	<u>-</u>	<u>100,000</u>
Net cash provided (used) in investing activities	<u>(15,686)</u>	<u>100,000</u>
Net increase (decrease) in cash	(271,106)	(24,103)
Cash and cash equivalents, beginning of year	<u>279,937</u>	<u>304,040</u>
Cash and cash equivalents, end of year	<u>\$ 8,831</u>	<u>\$ 279,937</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Appalachian Community Health Center, Inc. (the Center), is a 501(c)(3) nonprofit corporation established for the purpose of providing mental health and related services to residents of its surrounding area. The Center's principal office is located in Elkins, West Virginia and funding for operations is provided primarily through grants and contracts with the State of West Virginia and from fees for the services provided. Approximately 20% of expenses are incurred for management and general purposes and 80% for program related purposes.

FINANCIAL STATEMENTS - The accompanying financial statements have been prepared on the accrual basis of accounting.

UNRESTRICTED NET ASSETS - The unrestricted category consists of funds whose use is limited only to the extent that the organization's bylaws limit the activities of the organization. Contributions with donor-imposed restrictions met in the same year in which the contribution is recognized are reported as changes in unrestricted net assets.

TEMPORARILY RESTRICTED NET ASSETS - Temporarily restricted net assets are comprised of funds whose use has been limited by donors to a specific time period and/or purpose. The Center currently has no temporarily restricted net assets.

PERMANENTLY RESTRICTED NET ASSETS - Permanently restricted net assets are comprised of funds whose use has been restricted by the donor and must be maintained permanently by the Center. The Center currently has no permanently restricted net assets.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the valuation of patient accounts receivable, accrued pension cost, and depreciation expense. Management's estimate of the valuation of patient accounts receivable is based upon established rates with third-party payors, net amounts of anticipated collections, and historical collection information. Management's estimate of the liability for pension benefits is based on the actuarial report and the related actuarial assumptions utilized in preparing that report. Management's estimate of depreciation expense is based upon the estimated useful lives of the assets ranging from three to forty years using the straight-line method. Accordingly, actual results could differ from those estimates.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET PATIENT SERVICE REVENUE - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payers. Adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

REVENUE RECOGNITION - Contributions and grants with donor-imposed conditions are reported as revenue when qualifying expenses have been incurred or other conditions have been substantially met. Cash received but not yet expended for these conditional grants is recorded as refundable advances. Use of such cash is restricted to the purposes of the contribution or grant. Unrestricted grants and contributions are recorded as revenue in the period received.

PROPERTY AND EQUIPMENT - Property and equipment acquisitions greater than \$1,000 are capitalized and are recorded at cost. Depreciation is provided over the estimated useful lives of the assets ranging from three to forty years and is computed on the straight-line method. Expenditures for equipment costing less than \$1,000 and repairs and maintenance are charged to expense as incurred.

Contributions of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

All property and equipment is considered owned by the Center while it is used for authorized programs. The West Virginia Department of Health and Human Resources has a reversionary interest in all furniture and equipment purchased with State funds. The disposition of such equipment and ownership of any proceeds therefore is subject to state regulations. The net book value of such assets was \$30,023 at June 30, 2009.

INCOME TAXES - The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Center has been classified as an organization that is not a private foundation.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CHARITY CARE - The Center provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include cash on hand and deposits with banking institutions in checking and savings accounts and investments in highly liquid debt instruments with original maturities of three months or less.

INVESTMENTS - The Center maintains certificates of deposit at one financial institution. The certificates are stated at fair value, have original maturity dates greater than three months, and are used as part of the Center's asset management strategy.

PATIENT ACCOUNTS RECEIVABLE - Substantially all accounts receivable are from Medicare, Medicaid or other third-party payers. Accounts receivable are presented on the statement of financial position net of estimated allowances for uncollectible accounts, including bad debts and contractual allowances. The estimated allowance for uncollectible accounts is comprised of amounts management normally considers uncollectible based upon historical trends and an analysis of the likelihood of collectability of individual accounts. Amounts are normally considered uncollectible if unresolved differences between the Center and the respective payer exceed a judgmentally significant time period and all means of collection have been exhausted. The allowance for uncollectible accounts was \$100,000 and \$250,000 for the years ended June 30, 2009 and 2008, respectively, and has been netted against accounts receivable and net patient service revenue.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents include cash on hand and deposits with banking institutions in checking and savings accounts. Investments consist of bank certificates of deposit with original maturity dates greater than three months. Bank balances are insured by federal deposit insurance up to \$250,000 per financial institution and are secured with collateral for balances in excess of federal deposit insurance. Balances in these accounts sometimes exceed the federal deposit insurance limits and collateral; however, management believes the banks to be creditworthy and believes that credit risk associated with these deposits is minimal. At June 30, 2009, federal deposit insurance and collateral exceeded the total bank balances.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3 - ACCOUNTS RECEIVABLE CONCENTRATIONS OF CREDIT RISK

The Center extends credit without collateral to its patients, most of whom qualify for Medicaid. The mix of receivables is as follows:

	<u>2009</u>	<u>2008</u>
Medicaid	37%	20%
Medicaid waiver	42%	73%
Patients	7%	4%
Other third-party payers	<u>14%</u>	<u>3%</u>
	<u>100%</u>	<u>100%</u>

NOTE 4 - NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2009, the Center had a line of credit with a local bank totaling \$750,000. The amount outstanding under this line of credit was \$0 at June 30, 2009.

Interest expense incurred by the Center for the years ended June 30, 2009 and 2008 was \$1,282 and \$0, respectively.

NOTE 5 - REVENUE AND SUPPORT

As described in Note 1, the Center receives revenue from a variety of sources. The Center's programs are dependent upon its respective Federal and State sponsoring agencies obtaining adequate appropriation and the existence of sufficient tax revenues to fund such appropriations. Following is a summary of the major funding sources:

	<u>2009</u>	<u>2008</u>
West Virginia Department of Health and Human Resources		
Bureau for Behavioral Health and Health Facilities	\$ 1,507,339	\$ 1,547,710
Bureau of Public Health	148,750	-
Medicaid	1,050,744	1,095,540
Medicaid Waiver	1,033,978	1,117,600
Other	<u>725,754</u>	<u>778,011</u>
	<u>\$ 4,466,565</u>	<u>\$ 4,538,861</u>

A significant reduction in the level of this support, if this were to occur, may have a significant impact on the Center's programs and activities.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 6 - LEASE AGREEMENTS

The Center leases certain equipment on operating leases. Minimum annual rental commitments under noncancelable operating leases are as follows.

For the year ending June 30:

2010	\$ <u>25,390</u>
Total minimum rental commitments	\$ <u>25,390</u>

Total rent expense for the years ended June 30, 2009 and 2008 was \$59,968 and \$59,528, respectively.

NOTE 7 - PENSION PLAN

The Center has a defined benefit pension plan covering substantially all employees. The Plan provides for benefits computed at retirement based upon years of service and a percentage of previous compensation. The Center's funding policy is to contribute at least the amount necessary to meet minimum funding standards.

Beginning with the fiscal year ending June 30, 2009, the Center accounts for its pension costs in conformity with Financial Accounting Standards Board Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans." Pension expense charged to operations for the years ended June 30, 2009 and 2008 was \$166,188 and \$146,710, respectively.

Effective August 1, 1996, the Plan was amended to change the monthly benefit payable to the participant's Accrued Benefit as of July 31, 1996 plus 1.0% of Average Monthly Compensation times years of Benefit Service after August 1, 1996. Prior to August 1, 1996 the monthly benefit payable was equal to 1.5% of Average Monthly Compensation multiplied by years of Benefit Service at Normal Retirement Date.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 7 - PENSION PLAN (Continued)

Components of pension expense for the years ended June 30, 2009 and 2008 include the following:

	<u>2009</u>	<u>2008</u>
Service cost	\$ 127,115	\$ 117,273
Interest cost	175,981	159,151
Expected return on plan assets	(123,903)	(116,537)
Amortization of prior service cost	(35,702)	(35,702)
Recognized net actuarial loss	<u>22,697</u>	<u>22,525</u>
	<u>\$ 166,188</u>	<u>\$ 146,710</u>

Assumptions used in the accounting for net periodic pension cost were as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.25%
Rate of increase in compensation levels	2.50%	2.50%
Expected long-term rate of return on assets	3.25%	5.00%

As required by accounting principles generally accepted in the United States of America, effective for the year ended June 30, 2007, the Center adopted Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires the recognition of the funded status of the plan as the difference between the fair value of the plan assets and the projected benefits obligation. In addition, gains or losses, prior service costs, and changes in the transition asset/obligation that arise during the period, but are not recognized as components of net periodic pension expense pursuant to FASB Statement 87, *Employers' Accounting for Pensions*, are recognized as nonoperating changes in unrestricted net assets.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 7 - PENSION PLAN (Continued)

In accordance with Financial Accounting Standards Board Statement No. 158, the funding status of the plan as of June 30, 2009 is summarized below.

	<u>2009</u>	<u>2008</u>
Net amount recognized at year-end		
Projected benefit obligation	\$ 3,072,117	\$ 2,827,720
Fair value of plan assets	<u>2,484,926</u>	<u>2,387,441</u>
Liability for pension benefits	<u>\$ 587,191</u>	<u>\$ 440,279</u>
Items not yet recognized as a component of the net periodic pension cost		
Unrecognized prior service cost	\$ (56,536)	\$ (92,238)
Unrecognized actuarial (gain)/loss	<u>836,688</u>	<u>687,666</u>
Effect of adoption of FASB 158	<u>\$ 780,152</u>	<u>\$ 595,428</u>

The following summarizes the change in the projected benefit obligations for the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Benefit obligation at beginning of year	\$ 2,827,720	\$ 2,546,409
Service cost	127,115	117,273
Interest cost	175,981	159,151
Benefits paid	(173,912)	(114,999)
Actuarial (gain) or loss	<u>115,213</u>	<u>119,886</u>
Benefit obligation at end of year	<u>\$ 3,072,117</u>	<u>\$ 2,827,720</u>

The following summarizes the changes in plan assets at fair value for the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Fair value of plan assets at beginning of year	\$ 2,387,441	\$ 2,228,078
Actual return on plan assets	67,397	77,256
Employer contributions	204,000	204,000
Benefits paid	(173,912)	(114,999)
Administrative expenses	<u>-</u>	<u>(6,894)</u>
Fair value of plan assets at end of year	<u>\$ 2,484,926</u>	<u>\$ 2,387,441</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 7 - PENSION PLAN (Continued)

The plan assets are comprised of a fixed income insurance contract, certificate of deposit and interest bearing cash. At June 30, 2009 and 2008, the insurance contract comprised 33% and 40% respectively, of the total plan's total assets.

Total employer contributions estimated to be made during the year ending June 30, 2010 are \$204,000.

Total expected future benefit payments for the next five years and the subsequent five year period are as follows.

Year Ending June 30, 2010	\$ 239,655
Year Ending June 30, 2011	65,967
Year Ending June 30, 2012	251,316
Year Ending June 30, 2013	463,680
Year Ending June 30, 2014	319,921
5 Years Ending June 30, 2019	1,366,838

NOTE 8 - FUNCTIONAL CLASSIFICATION

The Center provides mental health services to residents within the surrounding area of Elkins, West Virginia. Expenses related to providing these services for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Substance Abuse - Federally funded program offering a comprehensive array of substance abuse assessment and treatment services to meet the varying needs of those who are abusing or addicted to alcohol or other drugs of abuse	\$ 390,927	\$ 447,000
Day Program - program focusing on the diagnosis and treatment of emotional and behavioral health problems in a day time treatment	149,021	202,413
Youth Programs - programs focused on the mental and physical well-being of youth	416,838	446,494

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 8 - FUNCTIONAL CLASSIFICATION (Continued)

Waiver Services - State funded Medicaid program designed to deliver services to individuals in their home and community as an alternative to receiving services in an Intermediate Care Facility	821,536	858,571
Service Coordination - case management program designed to provide a single point of contact to ensure patients needs are met	543,691	560,790
Medical Services - program dedicated to enhancing the emotional and behavioral health through professional treatment services	510,498	487,560
Clinical & Rehabilitation - programs directed toward clinical rehabilitation services for eligible individuals	358,763	420,182
Crisis - comprehensive array of programs designed to stabilize the conditions of acute or severe psychiatric symptoms	291,618	324,324
Other programs	<u>204,503</u>	<u>122,321</u>
Total program services	3,687,395	3,869,655
Administrative and general	<u>906,856</u>	<u>810,966</u>
Total expenses	<u>\$ 4,594,251</u>	<u>\$ 4,680,621</u>

NOTE 9 - FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Center adopted the provisions of SFAS 157 for certain statement of financial position items. SFAS 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 9 - FAIR VALUE MEASUREMENTS (Continued)

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2009 are as follows:

<u>June 30, 2009</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Certificates of Deposit	\$ 915,000	\$ -	\$ 915,000	\$ -
Total investments at fair value	<u>\$ 915,000</u>	<u>\$ -</u>	<u>\$ 915,000</u>	<u>\$ -</u>

NOTE 10 - CONTINGENCIES

Under the terms of certain grant programs, periodic audits may be made, and certain costs may be questioned as not being appropriate expenses. Laws and regulations governing the grant programs and allow ability of program costs are complex and subject to interpretation. Accordingly, such audits could lead to disallowances requiring reimbursements to the grantor agencies, which could be material to the Center's financial statements. Management of the Center believes that the Center is in compliance with applicable laws and regulations in all material respects.

Also, the Center is involved in various legal actions from time to time in the ordinary course of business. Management is not currently aware of any matters, which will have a significant adverse effect on the accompanying financial statements.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF STATE GRANT AWARDS
 YEAR ENDED JUNE 30, 2009

AWARDING AGENCY	GRANT NAME	GRANT IDENTIFICATION	PERIOD OF AWARD	TOTAL AWARD	RECEIPTS	EXPENSES	UNEXPENDED BALANCE	AMOUNT RECEIVABLE
WYDHR - BHP	Community Placement	0525-2009-2870-803-252	07/01/2008 - 06/30/2009	\$ 32,850	\$ 30,150	\$ 32,100	\$ 750	\$ 1,950
WYDHR - BHP	Core Services & Crisis Improvement	0525-2009-2851-219-252	07/01/2008 - 06/30/2009	225,230	225,230	225,230	-	-
WYDHR - BHP	Case Management	0525-2009-2851-219-252	07/01/2008 - 06/30/2009	25,000	21,360	25,000	-	3,640
WYDHR - BHP	Disaster Hotline	0525-2009-2851-219-252	07/01/2008 - 06/30/2009	10,000	9,000	10,000	-	1,000
WYDHR - BHP	SA Core Services	0525-2009-2890-219-252	07/01/2008 - 06/30/2009	29,155	27,546	29,155	-	1,609
WYDHR - BHP	DD Client Core Services	0525-2009-2870-219-252	07/01/2008 - 06/30/2009	71,207	71,207	71,207	-	-
WYDHR - BHP	Uncompensated Care	0525-2009-3065-219-252	07/01/2008 - 06/30/2009	426,292	426,292	426,292	-	-
WYDHR - BHP	PI Services	0525-2009-2885-219-252	07/01/2008 - 06/30/2009	39,000	28,576	39,000	-	10,424
WYDHR - BHP	Support and Alternative Services	0525-2009-3041-219-252	07/01/2008 - 06/30/2009	182,408	182,408	182,408	-	-
WYDHR - BHP	Electronic Medical Equipment	0525-2008-2849-219-252	07/01/2008 - 06/30/2009	33,500	33,500	33,500	-	-
WYDHR - BHP	Community Supports Improvement	0525-2009-3702-219-252	07/01/2008 - 06/30/2009	152,666	114,574	152,666	-	38,092
TOTAL				\$ 1,227,308	\$ 1,169,843	\$ 1,226,558	\$ 750	\$ 56,715

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF EXPENDITURES OF BHHF FEDERAL AWARDS
 BY STATE ACCOUNT NUMBER
 YEAR ENDED JUNE 30, 2009

<u>FEDERAL PROGRAM TITLE</u>	<u>FEDERAL CFDA #</u>	<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
DASIS	11.111	8723-2009-2849-096-128	\$ 51,000
Block Grant for Prevention and Treatment of Substance Abuse	93.959	8793-2008-2885-096-128	56,543
	93.959	8793-2009-2892-096-128	95,543
	93.959	8793-2009-2890-096-128	15,845
National Bioterrorism Hospital Preparedness Program	93.889	8802-2008-2872-096-128	61,850
			<u>\$ 280,781</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF BHHF STATE AWARDS
BY STATE ACCOUNT NUMBER
YEAR ENDED JUNE 30, 2009

<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
0525-2009-2870-803-252	\$ 32,100
0525-2009-2851-219-252	225,230
0525-2009-2851-219-252	25,000
0525-2009-2851-219-252	10,000
0525-2009-2890-219-252	29,155
0525-2009-2870-219-252	71,207
0525-2009-3065-219-252	426,292
0525-2009-2885-219-252	39,000
0525-2009-3041-219-252	182,408
0525-2008-2849-219-252	33,500
0525-2009-3702-219-252	152,666
	<u>\$ 1,226,558</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF BHHF FUNDING STATUS FOR PURCHASE
 ORDERS #G080020 AND #G090249
 YEAR ENDED JUNE 30, 2009

BHHF ACCOUNT NUMBER	FINAL BHHF AWARD	AMOUNT EARNED AND BILLED	AMOUNT NOT EARNED BUT BILLED	AMOUNT EARNED AND NOT BILLED	AMOUNT COLLECTED
0525-2009-2870-803-252	\$ 32,850	\$ 32,100	\$ -	\$ -	\$ 30,150
0525-2009-2851-219-252	225,230	225,230	-	-	225,230
0525-2009-2851-219-252	25,000	25,000	-	-	21,360
0525-2009-2851-219-252	10,000	10,000	-	-	9,000
0525-2009-2890-219-252	29,155	29,155	-	-	27,546
0525-2009-2870-219-252	71,207	71,207	-	-	71,207
0525-2009-3065-219-252	426,292	426,292	-	-	426,292
0525-2009-2885-219-252	39,000	39,000	-	-	28,576
0525-2009-3041-219-252	182,408	182,408	-	-	182,408
0525-2008-2849-219-252	33,500	33,500	-	-	33,500
0525-2009-3702-219-252	152,666	152,666	-	-	114,574
8723-2009-2849-096-128	51,000	51,000	-	-	51,000
8793-2008-2885-096-128	56,543	56,543	-	-	50,288
8793-2009-2892-096-128	95,543	95,543	-	-	90,006
8793-2009-2890-096-128	15,845	15,845	-	-	10,939
8802-2008-2872-096-128	148,850	61,850	-	-	61,850
	<u>\$ 1,595,089</u>	<u>\$ 1,507,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,433,926</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding
 Year Ended June 30, 2009

Description of Item	Vendor Name	Vendor ID #	Provider ID #	Date Acquired	Cost of Item	State Account Number	Estimated Useful Life
IBM PS/Value Point 486SX Processor w/14v Color Monitor and keyboard	IBM PC Direct		37924	09/20/94	\$ 1,600.07	8793-1994-2891-096-252-003304G 8504-04-E-V-05-08-SA	5 years
OPSCAN 2 (scanner and software) 321X Assessments	NCS		37924	10/21/94	6,627.14	8793-1994-2891-096-252-003304G 8504-04-E-V-05-08-SA	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9254 M=6674634 P=11-D9010	37924	08/20/96	2,973.00	0525-1997-2884-219-252	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9270 M=6699605 P=11-D6839	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9296 M=6699614 P=11-D6861	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9259 M=6699606 P=11-D6855	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9201 M=6660864 P=11-D6873	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9255 M=6699648 P=11-D6854	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Lexmark Optra E Printer	IBM	C=23B9252 M=6699617 P=11-D6877	37924	08/20/96	2,973.48	8793-1997-2891-096-252-00952	5 years
IBM Aptiva-monitor, computer w/ Winwriter 150 C Inkjet	IBM	C=23B9189 M=6699613 P=11-X7383	37924	08/20/96	2,348.66	0525-1997-2884-219-252	5 years
IBM Thinkpad (Notebook P.C.)	Premier Computer Services	78-AHIMV5	37924	09/30/96	2,911.50	8793-1997-2890-096-252-00952	5 years
Lexmark 4039 10 plus laser printer	Premier Computer Services	11-XK279	37924	04/03/97	1,196.74	8793-1997-2891-096-252-00952	5 years
Lift & sling for wheelchair	Home Health Care Services, Inc.	17604	37924	04/29/97	1,130.00	0525-1997-2870-219-252	3 years
Gravelly Tractor w/ mower	Mountain View Equipment Sales	TRACTOR = 000636 MOWER = 000750	37924	06/20/97	7,850.36	0525-1997-2923-219-252	5 years
Utility Trailer	Mountain View Equipment Sales	4DEUS121OTS0016321	37924	06/20/97	1,100.00	0525-1997-2923-219-252	5 years
Wheelchair w/ lift & sling	Gunnell Inc.	19369	37924	06/27/97	4,102.84	0525-1997-2870-219-252	3 years

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding
 Year Ended June 30, 2009

Description of Item	Vendor Name	Vendor ID #	Provider ID #	Date Acquired	Cost of Item	State Account Number	Estimated Useful Life
Pentium 120 Computer monitor, & Cannon BJC 240 Printer	Lothes Computer Services	C-BG45AP53 M=M3T570310481 P=BHFN83751	37924	06/27/97	1,739.46	0525-1997-2892-219-252	5 years
Sharp SF 2014 Copier	Office Products, Inc.	76603891	37924	06/29/97	1,007.00	8793-1997-2886-096-252-00952	5 years
1997 Ford Escort 4 door -	Jenkins Ford	11PALP10POVW301146	37924	06/29/97	12,332.05	0525-1997-2890-219-252-00952 \$7000 8793-1997-2891-096-252-00952 \$5332	5 years
Canon DR3020 Desktop scanner	Superior Office	AA301770	37924	08/03/97	3,991.43	8793-1998-2891-096-252-02060	5 years
Hewlett Packard Color Monitor, keyboard and computer w/modem	H. L. Heaster, Inc. of Elkins	C-US73110637 M=HEW-D2818A	37924	09/16/97	2,749.38	8793-1997-2891-096-252-0952	5 years
IBM PC - Randolph Co.	Premier Computer	23GXCYR	37924	04/09/99	1,624.98	5152-1999-2875-099-252-03394	5 years
IBM PC - Unahur Co.	Premier Computer	23GXZAT	37924	04/09/99	1,624.98	5152-1999-2875-099-252-03394	5 years
IBM PC - Barbour Co.	Premier Computer	23GXVWG	37924	04/09/99	1,624.98	5152-1999-2875-099-252-03394	5 years
IBM PC - Tucker Co.	Premier Computer	23GXZBH	37924	04/09/99	1,624.98	5152-1999-2875-099-252-03394	5 years
IBM PC	Premier Computer	M-23XZTMP	37924	06/23/99	1,175.16	8793-1999-2886-096-252-03087	5 years
ASI Treatment Tracking Upgrade	QuickStart Systems		37924	06/22/99	2,418.00	8793-1999-2892-096-252-03087	4 years
ASI Treatment Tracking Upgrade	QuickStart Systems		37924	06/22/99	2,418.00	8793-1999-2890-096-252-03087	4 years
IBM ThinkPad 390X (2626-HOU) PII 400 MHz, 6.4GB/64MB, 14.1" TFT Display, 56K Modem, Win '98	Premier Computer	AIFILM7	37924	04/05/00	2,436.94	8793-2000-2885-096-128-04135 348.14 8793-2000-2892-096-128-04135 348.14 8793-2000-2890-096-128-04135 348.14 8793-2000-2886-096-128-04135 348.13 0525-2000-2884-219-252 1,044.39	5 years
IBM Thinkcentre A30 40GB/256MB 17" Lexmark P4, monitor w/ speakers	Premier Computer	C=814822U M=6324HN P=2280600 S=970082-0403	37924	06/06/05	1,549.00	8793-2005-2892-096-128-10596	5 years
IBM Thinkpad G41 40 G/256MB IBM 256MB DDR SODIMM	Premier Computer	C=28865TU 31P9830	37924	06/25/05	1,243.00	8793-2005-2892-096-128-10596	5 years
Furnace-A/C Unit P1 Siutler	Triangel Heating & Cooling Inc.	340MV048080AJKA-1905A00757	37924	06/17/05	3,300.00	0525-2005-2885-219-252/258	5 years
Microsoft Office Professional Edition 2003	Boston Technologies, Inc.		37924	11/30/06	2,495.00	8723-2007-2849-096-128	3 years
2007 Toyota Sienna Van	Dava Cava's Toyota World		37924	06/23/07	25,572.50	0525-2007-3072-219-252	5 years
2006 Toyota Sienna Van	Dan Cava's Toyota World		37924	07/28/06	28,123.15	0525-2007-3072-219-252	5 years
Lenovo ThinkPad W500 4062	Boston Technologies		37924	06/30/09	1,477.23	0525-2009-3702-219-252	5 years
					\$ 150,208.41		

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 BEHAVIORAL HEALTH AND HEALTH FACILITIES
 STANDARDIZED FINANCIAL STATEMENTS - BALANCE SHEET
 FOR COMPREHENSIVE AND MR/DD FACILITIES
 ACCRUAL BASIS

June 30, 2009

ASSETS

1. Cash	\$ 8,831
2. Short Term Investments	915,000
3. Accounts Receivable - BHHF	73,417
4. Accounts Receivable - Client	34,520
5. Accounts Receivable - Medicaid	168,537
6. Accounts Receivable - Medicaid MR/DD Waiver	193,571
7. Accounts Receivable - Other	64,613
8. Inventory	2,902
9. Prepaid/Other	75,821
10. TOTAL CURRENT ASSETS (Total of lines 1-9)	1,537,212

NON-CURRENT ASSETS:

FIXED ASSETS

11. Property, Land and Equipment - BHHF	150,208
12. Less Accumulated Depreciation	(120,185)
13. Property, Land and Equipment - Other	2,738,158
14. Less Accumulated Depreciation	(2,393,354)
15. Total Property, Land and Equipment (NET)	374,827

OTHER NON-CURRENT ASSETS

16. Long-Term Investments	-
17. Other	-
18. TOTAL ASSETS (Total of lines 10, 15, 16 and 17)	\$ 1,912,039

LIABILITIES

CURRENT LIABILITIES:

19. Accounts Payable	\$ 16,339
20. Taxes Payable	20,046
20a. Provider Taxes Payable	(15,069)
21. Line of Credit - Payable	-
22. Short-Term Notes Payable	-
23. Accrued Expenses	147,033
24. Other Current Liabilities	200,068
25. TOTAL CURRENT LIABILITIES (Total of lines 19 through 24)	368,417

LONG-TERM LIABILITIES:

26. Long-Term Notes Payable	-
27. Other Long-Term Liabilities	587,191
28. TOTAL LIABILITIES (Total of lines 25, 26 and 27)	955,608

NET ASSETS

29. Unrestricted Net Assets	956,431
30. Temporarily Restricted Net Assets	-
31. Permanently Restricted Net Assets	-
32. TOTAL LIABILITIES AND NET ASSETS (Total of lines 28 through 31)	\$ 1,912,039

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 BEHAVIORAL HEALTH AND HEALTH FACILITIES
 STANDARDIZED FINANCIAL STATEMENTS - INCOME STATEMENT
 FOR COMPREHENSIVE AND MR/DD FACILITIES
 ACCRUAL BASIS

June 30, 2009

REVENUE AND SUPPORT

1.	Charity Care	\$ -
1a.	Charity Care - Account 4311.1	109,441
1b.	Charity Care - Account 4311.2	214,807
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	182,408
1i.	Charity Care - Account 4329	(324,248)
1j.	Charity Care - Account 4358	(182,408)
2.	Gross Client Service Revenue	2,379,738
3.	Contractual Adjustments (Target Funds)	(1,189)
3a.	Contractual Adjustments (Non-Target Funds)	(4,714)
4.	Bad Debt	-
4a.	Bad Debt (BHHF Target Funds)	-
4b.	Bad Debt (BHHF Non-Target Funds)	-
5.	Net Client Service Revenue	2,373,835
Net Client Service Revenue		
6.	Medicaid (Target Funds)	21,565
6a.	Medicaid (Non-Target Funds)	799,440
7.	Medicaid MR/DD Waiver (Non-Target Funds)	1,046,149
8.	ICF/MR (Non-Target Funds)	-
9.	Private Pay (Non-Target Funds)	-
9a.	Private Pay (BHHF Target Funds)	9,993
9b.	Private Pay (BHHF Non-Target Funds)	124,770
10.	Other Client Service Revenue (Target Funds)	6,234
10a.	Other Client Service Revenue (Non-Target Funds)	365,684
11.	Total Net Client Service Revenue	2,373,835
	<small>(Line 11 must agree with line 5)</small>	
12.	BHHF Support	1,507,339
13.	Other/Public Support	548,621
14.	Other	36,770
15.	TOTAL REVENUE AND SUPPORT	4,466,565
	<small>(Total of line 11 through line 14)</small>	

EXPENSES

16.	Salaries	2,448,174
17.	Fringe Benefits	693,614
18.	Contractual Services	339,541
19.	Provider Tax	95,709
20.	Depreciation Expense	77,649
21.	Other Expenses	939,564
22.	TOTAL EXPENSES	4,594,251
	<small>(Total of line 16 through line 21)</small>	
23.	NET INCOME (LOSS)	\$ (127,686)
	<small>(Line 15 minus line 22)</small>	



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Appalachian Community Health Center, Inc.
Elkins, West Virginia

We have audited the financial statements of Appalachian Community Health Center, Inc. (the Center) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 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 considered the Center'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 our opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2009-1, 2009-2.

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 entity'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 internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Center in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of the board of directors, management, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Charleston, West Virginia
November 13, 2009

DHHR - Finance

NOV 30 2009

Date Received

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES

2009-01 Account Reconciliations / Accounting Systems

Criteria: Management should ensure that the financial records of the Center are accurately presented and that all accounts have been reconciled to supporting ledgers and documentation.

Condition: There were several year-end accounts that were not fully reconciled to the items comprising the year-end balance. The accounts affected included accrued salaries and wages, accrued payroll taxes, accrued annual leave, accounts receivable, accounts payable, and prepaid insurance.

Cause: A systematic review of the trial balance accounts and underlying data is not currently performed on a regular basis, including at year end. The Center has a custom designed accounting system that is not fully integrated and has over the years developed several procedures and mechanisms that complicate the reconciliation process. In addition, Center personnel often wait for technical assistance provided in conjunction with the audit to make certain entries.

Effect: The trial balance as presented for our audit required many adjusting journal entries to reconcile accounts to reporting documentation.

Recommendation: We recommend that management make a concerted effort to regularly reconcile all accounts to supporting ledgers and documentation, and review the ending balances to ensure that these items are accurately stated.

Management's Response/Views of Responsible Officials: *Center management will solicit specific suggestions from Auditors regarding reconciliation of the accounts receivable detail module with the General Ledger. Management will continue dialogue with the system developer regarding operation design of the module. In addition, with technical assistance from the auditors, management will attempt to reconcile the applicable accounts to the general ledger on a monthly basis.*

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND RESPONSES

2009-02

Property and Equipment / Depreciation Expense

Criteria: Management should ensure that purchases of fixed assets are properly capitalized at the time of purchase. Also, management should track depreciation on fixed assets and make a journal entry at year end to record actual depreciation expense and accumulated depreciation, rather than relying on prior year estimates. In addition, a physical inventory of fixed assets should be taken every two years and reconciled to the fixed asset listing.

Condition: Currently, purchases of fixed assets are being maintained in a folder, but are not being capitalized in the books of the Center. Also, depreciation expense is being recorded as an estimate based on prior years. In addition, a complete inventory was taken in 2009, but it was not reconciled to the Center's fixed asset listing.

Cause: The fixed assets spreadsheet as developed by management has not been updated for current year activity or reconciled to the results of the physical inventory.

Effect: Assets are not always recorded timely in the financial records of the Center, and assets may have been disposed of, but not removed from the records.

Recommendation: We recommend that management capitalize purchases that meet the requirement for fixed assets at the time of purchase. Also, we recommend that management track depreciation on the fixed assets spreadsheet and make a journal entry at year end to record actual depreciation expense and accumulated depreciation rather than relying on prior year estimates. Finally, a fixed asset inventory, when performed, should be reconciled to the fixed asset listing. Any adjustments or corrections should be made in a timely manner.

Management's Response/Views of Responsible Officials: *Property and equipment will be capitalized contemporarily with the purchase of the asset, and management will track depreciation and record actual expense and accumulated depreciation for the current fiscal year.*

**Appalachian Community
Health Center, Inc.**

Report to the Board of Directors

November 13, 2009

DHHR - Finance

NOV 30 2009

Date Received



November 13, 2009

Board of Directors
Appalachian Community Health Center, Inc.
Elkins, WV

We are pleased to present this report related to our audit of the financial statements of Appalachian Community Health Center, Inc. (the Center) for the year ended June 30, 2009, and our examination of the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Appalachian Community Health Center, Inc.'s financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Appalachian Community Health Center, Inc.

A handwritten signature in cursive script that reads 'Suttle & Stalnaker, PLLC'.

Suttle & Stalnaker, PLLC
Charleston, West Virginia

DHHR - Finance

NOV 30 2009

Date Received

The Virginia Center - 1411 Virginia Street, East - Suite 100 - Charleston, WV 25301
Phone (304)-343-4126 or 1-(800)-788-3844 - Fax (304)-343-8008

Towne Square - 201 Third Street - PO Box 149 - Parkersburg, WV 26102
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A Professional Limited Liability Company

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Management Representations Letters - Audit of Financial Statements Examination of Indirect Cost Rate Proposal	
Internal Control Letter	

Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States of America have been described to you in our arrangement letter dated May 22, 2009.
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Center. The Center did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Alternative Treatments Discussed with Management</p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates".

Area	Comments
Financial Statement Disclosures	In our discussions and meetings with you, we discussed with you the financial statements including the neutrality, consistency and clarity of disclosures.
Audit Adjustments	Audit adjustments recorded by the Center are shown on the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached "Summary of Uncorrected Misstatements."
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Letter Regarding Significant Deficiencies and Material Weaknesses	We have separately communicated the significant deficiencies and material weaknesses identified during our audit of the financial statements, and this communication is included with the audited financial statements.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the Center are attached as exhibits.

Appalachian Community Health Center, Inc.
Summary of Accounting Estimates
Year Ended June 30, 2009

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Center's June 30, 2009 financial statements:

Area	Accounting Policy	Estimation Process	Comments
Fixed Assets/ Depreciation Expense	Depreciation & Amortization	Straight line depreciation used, based on estimated useful life ranging from 3 to 40 years.	We are in agreement with management's process.
Accounts Receivable/ Revenue	Valuation of Patients Accounts Receivable	Based upon established rates with third-party payors, net amounts of anticipated collections, and historical collection information.	We are in agreement with management's process.
Accrued Pension Liabilities	Valuation of Accrual	Based on actuarial report and related actuarial assumptions	We are in agreement with management's process

Appalachian Community Health Center, Inc.
Summary of Recorded Audit Adjustments
Year Ended June 30, 2009

During the course of our audit, we accumulated adjustments that were determined by management to be material to the statement of net assets, statement of revenue, expenses, and changes in net assets, and cash flows and to the related financial statement disclosures, or management otherwise determined were appropriate to make. The summary of the adjustments made to the original trial balance are as follows.

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1			
To adjust pension liability to actual at year-end			
605	Pension expense	47,188.00	
999	Recognition provision of FASB	184,724.00	
230	Accrued pension cost		85,000.00
231	Liability for pension benefits		146,912.00
Total		<u><u>231,912.00</u></u>	<u><u>231,912.00</u></u>

Adjusting Journal Entries JE # 2
To correct posting that should have occurred in July 2009

106	Cash in bank - CNB - p/r	2,517.71	
220	FICA withheld - employee	255.89	
221	Federal tax withheld	437.26	
222	State tax withheld	134.14	
224	FICA withheld - employer	48.49	
224	FICA withheld - employer	207.37	
225	Worker's compensation	13.44	
602	Salaries & wages		3,345.00
603	F/b - workman's compensation		13.44
607	F/b - FICA		48.49
607	F/b - FICA		207.37
Total		<u><u>3,614.30</u></u>	<u><u>3,614.30</u></u>

Adjusting Journal Entries JE # 3
To correct entries made to record Pension CD interest.

488	Interest income	23,948.90	
215	Accrued pension payments		23,948.90
Total		<u><u>23,948.90</u></u>	<u><u>23,948.90</u></u>

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 4			
To correctly remove balance from balance sheet.			
215	Accrued pension payments	350,000.00	
136	Pension Met Life		350,000.00
Total		<u>350,000.00</u>	<u>350,000.00</u>
Adjusting Journal Entries JE # 5			
To remove accrued liability as of 6/30/09			
229	Health insurance	30,820.46	
609	F/b - insurance		30,820.46
Total		<u>30,820.46</u>	<u>30,820.46</u>
Adjusting Journal Entries JE # 6			
To adjust prepaid insurance to actual at YE			
117	Prepaid insurance	7,978.00	
630	Auto insurance		7,978.00
Total		<u>7,978.00</u>	<u>7,978.00</u>
Adjusting Journal Entries JE # 7			
To correct balance in accordance with supporting documentation			
224	FICA withheld - employer	2,584.00	
607	F/B - FICA		2,584.00
Total		<u>2,584.00</u>	<u>2,584.00</u>
Adjusting Journal Entries JE # 8			
To adjust accrued payroll to actual.			
602	Salaries & wages	1,775.00	
246	Accrued salary payable		1,775.00
Total		<u>1,775.00</u>	<u>1,775.00</u>
Adjusting Journal Entries JE # 9			
To adjust to actual at 6/30/09			
237	Withholding - pension	3,123.00	
632	Miscellaneous		3,123.00
Total		<u>3,123.00</u>	<u>3,123.00</u>

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 10			
To adjust to actual at 6/30/09			
606	F/B - unemployment	2,633.00	
232	Employment security withheld		2,633.00
Total		<u>2,633.00</u>	<u>2,633.00</u>

Adjusting Journal Entries JE # 11
To consolidate WC prepaid and accrued accounts.

225	Worker's compensation	7,731.00	
228	Miscellaneous withheld	2,421.05	
116	Prepaid deposits		7,731.00
225	Worker's compensation		2,421.05
Total		<u>10,152.05</u>	<u>10,152.05</u>

Adjusting Journal Entries JE # 12
To adjust depreciation expense to actual at year-end.

121	Accumulated depreciation bldg	17,392.98	
702	Depr expense equipment	399.68	
703	Depr expense vehicle	2.24	
124	Accumulated deprec - equipment		17,644.22
126	Accumulated deprec - vehicles		2.24
700	Depreciation expense bldgs.		148.44
Total		<u>17,794.90</u>	<u>17,794.90</u>

Adjusting Journal Entries JE # 13
To adjust annual leave accrual to actual at 6/30/09.

245	Accrued vacation payable	17,987.00	
602	Salaries & wages		17,987.00
Total		<u>17,987.00</u>	<u>17,987.00</u>

Adjusting Journal Entries JE # 14
To record disposal of asset.

124	Accumulated deprec - equipment	2,355.05	
123	Equipment		2,355.05
Total		<u>2,355.05</u>	<u>2,355.05</u>

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 15			
To adjust waiver liability to actual at year-end.			
927	Contracted physician	25,764.90	
238	Waiver payable		25,764.90
Total		<u>25,764.90</u>	<u>25,764.90</u>
Adjusting Journal Entries JE # 16			
To adjust receivable balance to actual at year-end.			
112	Contract funds rec.-curr. Yr.	14,123.00	
432	Youth crisis shelter - state		14,123.00
Total		<u>14,123.00</u>	<u>14,123.00</u>
Adjusting Journal Entries JE # 17			
To capitalize phone system originally recorded as expense.			
123	Equipment	5,665.70	
646	Office & communication equip		5,665.70
Total		<u>5,665.70</u>	<u>5,665.70</u>
Adjusting Journal Entries JE # 18			
To adjust Med tax payable to actual at year end			
248	Medicaid tax payable	25,704.53	
641	Medicaid tax		25,704.53
Total		<u>25,704.53</u>	<u>25,704.53</u>
Adjusting Journal Entries JE # 21			
To adjust A/R allowance account.			
150	Allowance uncollectable accts.	150,000.00	
515	Medicaid revenue adjustment		90,000.00
530	Private pay write-off		60,000.00
Total		<u>150,000.00</u>	<u>150,000.00</u>

Appalachian Community Health Center, Inc.
Summary of Uncorrected Misstatements
Year Ended June 30, 2009

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of financial position, results of operations, and cash flows and to the related financial statement disclosures; and for which management decided not to adjust the financial statements for. Following is a summary of those differences.

Account	Description	Debit	Credit
Proposed JE # 19			
To adjust a/p to actual at year-end.			
241	Accounts payable	10,917.59	
632	Miscellaneous		10,917.59
Total		<u>10,917.59</u>	<u>10,917.59</u>
Proposed JE # 20			
To correct posting of July disbursement.			
102	Cash in bank - C.N.B. - a/p	3,301.08	
241	Accounts payable		3,301.08
Total		<u>3,301.08</u>	<u>3,301.08</u>

Exhibits – Certain Written Communications Between Management and Our Firm

Arrangement Letters

Management Representations Letters

Internal Control Letter

Arrangement Letters



May 22, 2009

Board of Directors
Appalachian Community Health Center, Inc.
725 Yokum Street
Elkins, West Virginia 26241

Attention: Dr. Richard Kiley

This letter is to explain our understanding of the arrangements for the services we are to perform for Appalachian Community Health Center, Inc. (ACHC) for the year ending June 30, 2009. We ask that you either confirm or amend this understanding.

Audit Services

We will perform an audit of ACHC's financial statements as of and for the year ended June 30, 2009. We understand that the financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements:

1. Schedule of State Grant Awards
2. Schedule of Expenditures of BHHF Federal Awards by State Account Number
3. Schedule of Expenditure of BHHF State Awards by State Account Number
4. Schedule of BHHF Funding Status for Purchase Orders
5. Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding
6. BHHF Standardized Financial Statements - Balance Sheet for Comprehensive and MR/DD Facilities

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A Professional Limited Liability Company

7. BHHF Standardized Financial Statements - Income Statement for Comprehensive and MR/DD Facilities

Dr. Richard Kiley has informed us that ACHC has made expenditures of less than \$500,000 of monies received from any federal award programs. This consideration included the use of all federal funds whether received directly from a federal department or agency or as a secondary recipient from any other source, received either directly or indirectly as commodities or other tangible or intangible property from a federal award program, or participated in or received any benefits from any federal loan, loan guarantee, or insurance program during the audit period requiring any federal program compliance auditing.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error, fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

An audit of financial statements also includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to you and to management any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the audit committee or its equivalent (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the entity's accounting policies and financial statements.

In addition to our report on ACHC's financial statements, we will also issue the following reports or types of reports:

- A report on the fairness of the additional information included with the financial statements.
- Report on internal control related to the financial statements. This report will describe the scope of testing of internal control and the result of our tests of internal control.
- Report on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.
- A schedule of findings and responses.

Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards identified above. Our reports on compliance matters will address material errors, fraud, abuse, violations of compliance obligations and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with requirements of the standards identified above.

Tax Services

As part of our engagement, we will also prepare the federal form 990 information return for the year ended June 30, 2009. You are responsible for management decisions and functions, and for designating a competent employee to oversee these services. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results. You are also responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

You should be aware that, under the Internal Revenue Service Restructuring and Reform Act of 1998, certain information discussed by you with members of our firm who are authorized tax practitioners or their agents for the purpose of obtaining our firm's advice on tax matters is privileged from disclosure in any noncriminal tax matters before the IRS. Information compiled for the purpose of preparing a tax or information return is not privileged under common law because it is intended for disclosure to the IRS or others. The privilege will be waived if the communication is voluntarily disclosed to a third party. Also, privileged information might be used by you in preparing your financial statements and by us in auditing those statements. Professional standards require us to discuss matters that may affect the audit with our firm personnel responsible for nonaudit services, which includes tax services. The Internal Revenue Service might take the position that such communication results in a waiver of privilege.

Appalachian Community Health Center, Inc.'s Responsibilities

Management is responsible for the financial statements, including adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management employees who have significant roles in internal control and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

The audit committee or its equivalent is responsible for informing us of its views about the risks of fraud within the entity, and its knowledge of any fraud or suspected fraud affecting the entity.

Appalachian Community Health Center, Inc. agrees that our report on the financial statements will not to be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if Appalachian Community Health Center, Inc. intends to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, Appalachian Community Health Center, Inc. agree to provide us with printer's proofs or a masters for our review and consent before reproduction and/or release occurs. You also agree to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance system as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

During the course of our engagement, we may accumulate records containing data which should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by ACHC personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Don Sheffield. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

Other Terms of our Engagement

Appalachian Community Health Center, Inc. hereby indemnifies Suttle & Stalnaker, PLLC and its partners, principals and employees and holds them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a known misrepresentation by a member of Appalachian Community Health Center, Inc.'s management, regardless of whether such person was acting in ACHC's interest. This indemnification will survive termination of this letter.

The working papers for this engagement are the property of Suttle & Stalnaker, PLLC. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested working papers will be provided under the supervision of Suttle & Stalnaker, PLLC audit personnel and at a location designated by our Firm.

In the event we are requested or authorized by Appalachian Community Health Center, Inc. or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for Appalachian Community Health Center, Inc., Appalachian Community Health Center, Inc. will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

If circumstances arise relating to the condition of the Organization's records, the availability of sufficient, competent evidential matter, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

Any claim arising out of services rendered pursuant to this agreement shall be resolved in accordance with the laws of West Virginia. It is agreed by Appalachian Community Health Center, Inc. and Suttle & Stalnaker, PLLC or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of Appalachian Community Health Center, Inc. shall be asserted more than two years after the date of the last audit report issued by Suttle & Stalnaker, PLLC.

We will assist in drafting the Organization's financial statements and propose adjustments to the trial balance which will be reviewed and approved by management. The draft and the adjustments are the responsibility of management.

The two overarching principles of the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the work and, therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, Appalachian Community Health Center, Inc. agrees to the following:

1. Richard Kiley, Joy Messenger, and Don Sheffield will be accountable and responsible for overseeing the draft of the financial statements and trial balance adjustments.
2. ACHC will establish and monitor the performance of the draft of the financial statements and trial balance adjustments to ensure that they meet management's objectives.

3. ACHC will make any decisions that involve management functions related to the draft of the financial statements and trial balance adjustments and accepts full responsibility for such decisions.
4. ACHC will evaluate the adequacy of services performed and any findings that result.

HIPPA Compliance

In connection with compliance with the Health Insurance Portability and Accountability Act (HIPAA):

- (a) Suttle & Stalnaker, PLLC agrees not to use or disclose Protected Health Information (as defined in 45 CFR 160.103) other than as permitted or required by this arrangement letter (the "Agreement"); as required by operation of law; or as required by auditing standards or accounting principles.
- (b) Suttle & Stalnaker, PLLC agrees to use appropriate safeguards to prevent use or disclosure of the Protected Health Information other than as provided for by this Agreement. The Firm agrees to implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of electronic Protected Health Information that it creates, receives, maintains, or transmits.
- (c) Suttle & Stalnaker, PLLC agrees to report to ACHC any use or disclosure of the Protected Health Information not provided for by this Agreement and/or any Security Incident (as defined in 45 CFR 164.304) of which it becomes aware.
- (d) Suttle & Stalnaker, PLLC agrees to ensure that any agent, including a subcontractor, to whom it provides Protected Health Information received from, or created or received by Suttle & Stalnaker, PLLC on behalf of ACHC agrees to the same restrictions and conditions that apply through this Agreement to Suttle & Stalnaker, PLLC with respect to such information. Moreover, the Firm agrees to ensure that any such agent or subcontractor to whom it provides electronic Protected Health Information agrees to implement reasonable and appropriate safeguards to protect it.
- (e) ACHC shall not request Suttle & Stalnaker, PLLC to use or disclose Protected Health Information in any manner that would not be permissible under the Privacy Rule if done by ACHC.
- (f) Suttle & Stalnaker, PLLC may use and disclose Protected Health Information (i) for the proper management and administration of its business under this contract, (ii) to provide Data Aggregation Services relating to the Health Care Operations of ACHC, and (iii) to report violations of law to appropriate federal and state authorities, all as provided in the Privacy Rule.

- (g) Suttle & Stalnaker, PLLC agrees to document such disclosures of Protected Health Information made by Suttle & Stalnaker, PLLC and information related to such disclosures as would be required for ACHC to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with the Privacy Rule. Suttle & Stalnaker, PLLC further agrees to provide ACHC or an individual, upon request, with such information to permit ACHC to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR Sec. 164.528.
- (h) At no time will Suttle & Stalnaker, PLLC have possession and/or control of ACHC's patients' 'Designated Record Sets' or any copies thereof. The Protected Health Information created or maintained by Suttle & Stalnaker, PLLC is not part of the patient's Designated Record Set and is, therefore, not subject to the Privacy Rule's patient access or amendment rights. Consequently, 45 CFR Part 164.524 and 164.526 [and, therefore, 45 CFR Part 164.504(e)(2)(ii) subparts (E) and (F)] are not applicable to Suttle & Stalnaker, PLLC.
- (i) Suttle & Stalnaker, PLLC agrees to make its internal practices, books and records, including policies and procedures and Protected Health Information, relating to the use and disclosures of Protected Health Information received from ACHC available to ACHC or the Secretary of the U.S. Department of Health and Human Services or his or her designee promptly for purposes of determining the ACHC's compliance with the Privacy Regulations.
- (j) Term and Termination
 - (i) The Term of this Agreement regarding Protected Health Information shall be effective as of June 1, 2007, and shall terminate when all of the Protected Health Information provided by ACHC to Suttle & Stalnaker, PLLC, or received by Suttle & Stalnaker, PLLC on behalf of ACHC, is destroyed. If it is infeasible to destroy Protected Health Information, protections of this contract are extended to such information, in accordance with the termination provisions in this Section.
 - (ii) Termination for Cause. Upon ACHC's knowledge of a material breach by Suttle & Stalnaker, PLLC, ACHC shall either:
 - (1) Provide an opportunity for Suttle & Stalnaker, PLLC to cure the breach or end the violation and terminate this agreement if Suttle & Stalnaker, PLLC does not cure the breach or end the violation within the time specified by ACHC,
 - (2) immediately terminate this Agreement, if Suttle & Stalnaker, PLLC has breached a material term of this Agreement and cure is not possible; or
 - (3) if neither termination nor cure are feasible, ACHC shall report the violation to the Secretary of the Department of Health & Human Services.
 - (iii) Effect of Termination.

- (1) Except as provided in paragraph (ii) of this section, upon termination of this Agreement, for any reason, Suttle & Stalnaker, PLLC shall destroy all Protected Health Information received from ACHC, or received by Suttle & Stalnaker, PLLC on behalf of ACHC in accordance with their audit record retention policy. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of Suttle & Stalnaker, PLLC. Suttle & Stalnaker, PLLC shall retain no copies of the Protected Health Information beyond their normal retention period as required for their compliance with applicable professional standards.
- (2) In the event that Suttle & Stalnaker, PLLC determines that destroying the Protected Health Information is infeasible, we shall provide to ACHC notification of the conditions that make return or destruction infeasible. Upon any notice that destruction of Protected Health Information is infeasible, Suttle & Stalnaker, PLLC shall extend the protections of this Agreement to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make destruction infeasible, for so long as Suttle & Stalnaker, PLLC maintains such Protected Health Information.

Fees

We generally base our fees on the time required at our regular rates for the services and personnel assigned plus out-of-pocket costs and relevant computer charges. Our charges also include other appropriate factors, including the difficulty of the assignment, the degree of skill required, time limitations imposed on us by others, the experience and ability of the personnel assigned, and the value of the services to the client. Assuming adequate records, internal controls, and assistance of your personnel, we estimate that our fees will be as follows.

Fees for June 30, 2009 audit and federal information return	\$31,000
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Fees for training and technical assistance	Hourly Rates
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Out of pocket costs will be added to the above fees. We will attempt to minimize our fees consistent with quality work. The extent to which we can do this will depend on your personnel offering us clerical and other assistance to prepare schedules, perform analyses, and provide source documents. If we encounter unusual circumstances not contemplated in preparing this estimate, we will discuss them with you and arrive at a new fee arrangement for the additional services.

Closing

This letter constitutes the complete and exclusive statement of agreement between Suttle & Stalnaker, PLLC and Appalachian Community Health Center, Inc., superseding all proposals, oral or written, and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is attached for your information.

If this letter defines the arrangements as the Organization understands them, please sign the enclosed copy and return it to us

Suttle & Stalnaker, PLLC

Suttle & Stalnaker, PLLC

Confirmed on behalf of the Appalachian Community Health Center, Inc.:

Robert Kelly PW

Signature

epexdi

Title

DHHR - Finance

NOV 30 2009

Date Received



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

▪ 1200 BATH AVENUE ▪ P. O. BOX 990 ▪ ASHLAND, KENTUCKY 41105-0990 ▪
▪ Phone (606) 329-1811 ▪ Fax (606) 329-8756 ▪ E-mail contact@kelleygalloway.com ▪ Web site www.kelleygalloway.com ▪

Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

December 31, 2008

To the Members
Suttle & Stalnaker, PLLC

We have reviewed the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC (the firm) in effect for the year ended May 31, 2008. A system of quality control encompasses the firm's organizational structure, the policies adopted and the procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests; therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality

control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Suttle & Stalnaker, PLLC in effect for the year ended May 31, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Kelley, Galloway & Company, PSC

Kelley, Galloway & Company, PSC
Ashland, Kentucky

DHHR - Finance

NOV 30 2009

Date Received



May 22, 2009

Dr. Richard Kiley
Appalachian Community Health Center, Inc.
725 Yokum Street
Elkins, West Virginia 26241

Dear Dr. Kiley:

This letter is to explain our understanding of the arrangements regarding our engagement to examine the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009, in accordance with attestation standards established by the American Institute of Certified Public Accountants. We ask that you either confirm or amend this understanding.

The attestation standards require that we perform our examination engagement only if we have reason to believe that the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009 is capable of evaluation against criteria that are suitable and available to users. The Office of Management and Budget (OMB) Circular A-122, Cost Principles for Nonprofit Organizations, and The Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the U.S. Department of Health and Human Services (OASMB-5) are considered to be the appropriate evaluation criteria. We will notify you immediately if, in our judgment, the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009 does not meet the foregoing presentation standards. In such event, you will either need to modify the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009, to comply with the foregoing presentation standards, or we will be required to withdraw from the engagement.

If circumstances arise relating to the condition of your records, the availability of sufficient, competent evidential matter, or indications of a significant risk of material misstatement of the subject matter because of error or fraud which in our professional judgment prevent us from completing the engagement, we retain the unilateral right to take any course of action permitted by professional standards, including withdrawal from the engagement.

The services that we will perform are not designed and cannot be relied upon to disclose errors, fraud or illegal acts, should any exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

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Management is responsible for the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal. As you know, management is responsible for identifying and ensuring that Appalachian Community Health Center, Inc. complies with the laws and regulations applicable to its activities and for making all records and related information available to us. Our responsibility is to express positive assurance concerning the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal in relation to established or stated criteria. Accordingly, we will perform such procedures as we consider necessary to evaluate the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal in relation to the established or stated criteria for the purpose of expressing positive assurance on the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal. At the conclusion of our engagement, we will request certain written representations from management about the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal and matters related thereto. Our report will detail the nature of reservations, if any, we have with respect to the Appalachian Community Health Center, Inc. Indirect Cost Rate Proposal. Should we have any reservations, we will discuss them with you prior to issuing our report.

Appalachian Community Health Center, Inc. hereby indemnifies Suttle & Stalnaker, PLLC and its partners, principals and employees and holds them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a knowing misrepresentation by a member of Appalachian Community Health Center, Inc.'s management, regardless of whether such person was acting in Appalachian Community Health Center, Inc.'s interest. This indemnification will survive termination of this letter.

During the course of our engagement, we may accumulate records containing data that should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by your personnel will be discussed and coordinated with Dr. Richard Kiley. The timely and accurate completion of this work is an essential condition to our completion of our services and issuance of our report.

We generally base our fees on the time required at our regular rates for the services and personnel assigned plus out-of-pocket costs and relevant computer charges. Our charges also include other appropriate factors, including the difficulty of the assignment, the degree of skill required, time limitations imposed on us by others, the experience and ability of the personnel assigned, and the value of the services to the client. We will attempt to minimize our fees consistent with quality work. The extent to which we can do this will depend on you personnel offering us clerical and other assistance to prepare schedules, perform analyses, and provide source documents.

In the event we are requested or authorized by Appalachian Community Health Center, Inc. or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for Appalachian Community Health Center, Inc., Appalachian Community Health Center, Inc. will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The attest documentation for this engagement is the property of Suttle & Stalnaker, PLLC and constitutes confidential information. However, we may be requested to make certain attest documentation available to grantor agencies pursuant to authority given to them by law or regulation. If requested, access to such attest documentation will be provided under the supervision of Suttle & Stalnaker, PLLC personnel. Furthermore, upon request, we may provide photocopies of selected attest documentation to grantor agencies. A grantor agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

It is agreed by Appalachian Community Health Center, Inc. and Suttle & Stalnaker, PLLC or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of Appalachian Community Health Center, Inc. shall be asserted more than two years after the date of the last examination report issued by Suttle & Stalnaker, PLLC.

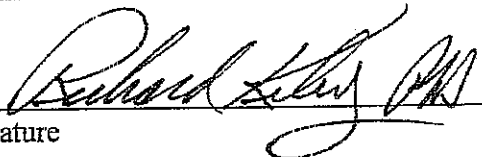
This letter constitutes the complete and exclusive statement of agreement between Suttle & Stalnaker, PLLC and Appalachian Community Health Center, Inc., superseding all other communications oral or written with respect to the terms of the engagement between the parties.


If this letter defines the arrangements as you understand them, please sign the enclosed copy and return it to us. We appreciate your business.

Suttle & Stalnaker, PLLC

Suttle & Stalnaker, PLLC

Confirmed on behalf of the addressee:


Signature

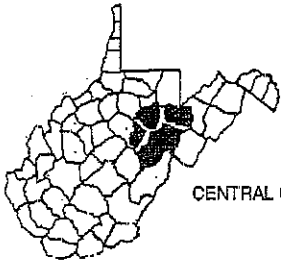

Title

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NOV 30 2009

Date Received

Management Representations Letters



THE APPALACHIAN COMMUNITY HEALTH CENTER

CENTRAL OFFICE: • 725 YOKUM STREET • ELKINS, WV 26241 • PHONE 304-636-3232 • FAX 304-636-9243

Participating: BARBOUR, RANDOLPH, TUCKER, and UPSHUR COUNTIES

November 13, 2009

Suttle & Stalnaker, PLLC
The Virginia Center, Suite 100
1411 Virginia Street, East
Charleston, WV 25301

In connection with your audit of the statements of financial position of Appalachian Community Health Center, Inc. (the Agency) as of June 30, 2009 and 2008 and the related statements of activities and cash flows for the years then ended, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
3. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles affecting internal control, or
 - c. Communication from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

4. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agency received in communications from employees, former employees, analysts, regulators, short sellers, or others.
6. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Agency's ability to record, process, summarize, and report financial data.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
 - a. The Agency has no significant amounts of idle property and equipment or permanent excess plant capacity.
 - b. The Agency has no plans or intentions to discontinue the operations of any subsidiary or branch or to discontinue any significant services or activities.
 - c. Provision has been made to reduce all investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - d. Long lived assets, including intangibles, which are impaired or to be disposed of, have been recorded at the lower of their cost or fair value.
8. The following have been properly recorded and/or disclosed in the financial statements, if applicable:
 - a. Related-party relationships, transactions and related amounts receivable or payable including sales, purchases, loans, transfers, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
 - b. Guarantees, whether written or oral, under which the Agency is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Lines of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.
 - f. Security agreements in effect under the Uniform Commercial Code.
 - g. All other liens or encumbrances on assets and all other pledges of assets.
 - h. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.
 - i. Investments in debt and equity securities, including their classification.
 - j. All liabilities which are subordinated to any other actual or possible liabilities of the Agency.
 - k. All leases and material amounts of rental obligations under long-term leases.

- l. All significant estimates and material concentrations known to management which are to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - m. Concentrations of credit risk.
 - n. Financial instruments with off-balance-sheet market or credit risk.
 - o. All recordable contributions, by appropriate net asset class.
 - p. Conditional promises to give.
 - q. Reclassifications between net asset classes.
 - r. Allocations of functional expenses based on reasonable basis.
 - s. Composition of assets in amounts needed to comply with all donor restrictions.
 - t. Deferred revenue from exchange transactions.
 - u. Refundable advances.
 - v. The fair value of financial instruments.
 - w. Tax status.
 - x. Board designated unrestricted net assets.
 - y. Derivative financial instruments.
 - z. The effect on the financial statements of any FASB statements or other accounting standards which have been issued, but which have not yet been adopted.
9. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made as applicable:
- a. To reduce receivables, including contributions, to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. For uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2009 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2009.
 - d. For pension obligations, postretirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2009.

- e. For any material loss to be sustained in the fulfillment of or from the inability to fulfill any commitment, including promises to give.
 - f. For environmental cleanup obligations.
 - g. For amounts held for others under agency and/or split interest agreements.
10. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
11. We are responsible for compliance with laws and regulations applicable to the Agency.
12. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
13. We know of no violations of state or federal statutory or regulatory provisions, grant or other contractual provisions of local ordinances.
14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in the financial statements in accordance with Statement of Accounting Standards No. 5.
15. The Agency has satisfactory title to all owned assets.
16. We have complied with all aspects of laws, regulations, contractual agreements, grants, other matters and donor restrictions that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining if we are subject to the requirements of the Single Audit Act and OMB Circular No A-133, because we have received, expended or otherwise been the beneficiary of any federal awards during the period of this audit.
17. In considering the disclosures that should be made about risks and uncertainties, we have concluded that the concentration of revenue sources, accounts receivable and cash should be disclosed.
18. The methods and significant assumptions used to estimate the fair values of financial instruments are as follows:
- a. Accounts receivable are reported at fair value based on estimated net collectibility based on contractual agreements with third party payors, historical collection trends, and an analysis of the likelihood of collectibility of individual accounts.

19. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.
20. We have made available to you all:
 - a. Contracts with all significant third-party payors or other providers.
 - b. Peer review organizations, fiscal intermediary, and third-party payor reports.
21. The following have been properly recorded and/or disclosed in the financial statements, as applicable:
 - a. Compliance with debt instruments.
 - b. Disclosures related to third-party payor agreements and settlements.
 - c. Disclosures related to professional liability insurance coverage.
22. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made, if applicable:
 - a. For estimated adjustments to revenue, such as for denied claims, changes to diagnosis-related group (DRG) assignments, or other estimated retroactive adjustments by third-party payors.
 - b. For obligations related to third-party payor contracts, including risk sharing and contractual settlements.
 - c. For audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
 - d. For medical malpractice obligations expected to be incurred with respect to services provided through June 30, 2009.
23. There are no:
 - a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Communications, whether oral or written, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to the Medicare and Medicaid antifraud and abuse statutes, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
24. Billings to third-party payors comply in all respects with applicable coding principles and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

25. Recorded receivable valuation allowances are necessary, appropriate and properly supported.
26. We concur with the adjustments included in the attached "Adjusting Journal Entries Report" and will ensure that they are posted to our books and records.
27. We believe that the effects of the uncorrected misstatements aggregated by you and summarized in the attached "Proposed JE Report" are immaterial, both individually and in the aggregate to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.


Richard Kiley
Executive Director

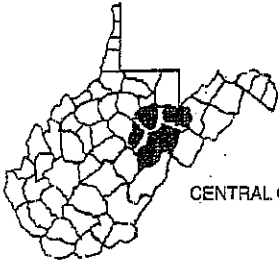

Joy Messenger
Associate Director


Donald Sheffield
Accountant

DHHR - Finance

NOV 30 2009

Date Received



THE APPALACHIAN COMMUNITY HEALTH CENTER

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Participating: BARBOUR, RANDOLPH, TUCKER and UPSHUR COUNTIES

November 13, 2009

Suttle & Stalnaker, PLLC
The Virginia Center, Suite 100
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Charleston, WV 25301

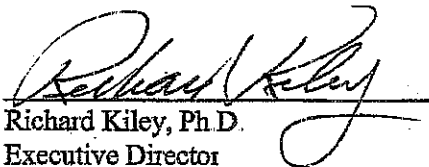
In connection with your examination of the Indirect Cost Rate Proposal for Appalachian Community Health Center, Inc. for periods beginning on or after July 1, 2009, for the purpose of expressing an opinion that the Indirect Cost Rate Proposal is presented, in all material respects, in conformity with the Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non Profit Organizations," and the "Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the U.S. Department of Health and Human Services (OASMB-5)," we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your examination.

1. We are responsible for the Indirect Cost Rate Proposal and for our assertion that it is presented in conformity with OMB Circular A-122 and the OASMB-5.
2. We are responsible for selecting the criteria and for determining that the criteria are appropriate for our purposes.
3. We are responsible for establishing and maintaining effective internal control over the preparation and development of the Indirect Cost Rate Proposal to ensure that it is presented in conformity with the OMB Circular A-122 and OASMB-5.
4. The Indirect Cost Rate Proposal for periods beginning on or after July 1, 2009, is presented in conformity with OMB Circular A-122 and the OASMB-5.
5. We have disclosed to you all known noncompliance with OMB Circular A-122 and OASMB-5, and we have disclosed to you all communications from regulatory agencies or other practitioners affecting the Indirect Cost Rate Proposal.


6. We have disclosed to you all events subsequent to June 30, 2009 that would have a material effect on the Indirect Cost Rate Proposal.
7. We have made available to you all records relevant to the Indirect Cost Rate Proposal.
8. There has been no fraud involving management or other employees who have significant roles related to the Indirect Cost Rate Proposal.
9. We have responded fully to inquiries made to us by you during your engagement.
10. We intend to distribute your report only to the West Virginia Department of Health and Human Resources.

No events or transactions have occurred subsequent to June 30, 2009 and through the date of this letter that would require adjustment to, or disclosure in, the indirect cost rate proposal.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.


Richard Kiley, Ph.D.
Executive Director


Joy Messenger
Associate Director


Donald Sheffield
Accountant

DHHR - Finance

NOV 30 2009

Date Received

Internal Control Letter



CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Appalachian Community Health Center, Inc.
Elkins, West Virginia

This letter is intended to inform the Board of Directors of Appalachian Community Health Center, Inc. (the Center) about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors. This letter also includes comments and suggestions with respect to certain internal control matters that came to our attention in connection with our audit of the Center's financial statements for the year ended June 30, 2009.

INTERNAL CONTROL

In planning and performing our audit of the financial statements of the Center as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected.

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.

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Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have separately communicated to you in a report dated November 13, 2009 identified deficiencies that we determined to be significant deficiencies, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. Following is a description of other identified control deficiencies that we considered worthy of your attention that we determined did not constitute a significant deficiency or material weakness. These comments and recommendations are offered as constructive suggestions to be considered as part of the process of improving practices and procedures.

Pension Assets
(Prior Year Comment)

The Center currently records some, but not all, of the pension plan assets in the general ledger. Since these are pension assets, the Center also records an offsetting contra-account so that the Center's financial statements are not misstated.

We recommend that the Center discontinue recording pension plan assets on the Center's general ledger, and instead set up a separate general ledger for all of the pension plan assets and activity. This will reduce the possibility of confusion and errors regarding the segregation of pension assets from the assets of the Center.

* * * * *

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



Charleston, West Virginia
November 13, 2009

DHHR - Finance

NOV 30 2009

Date Received