

Audited Financial Statements

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

Years Ended June 30, 2010 and 2009

DHHR - Finance

JUN 13 2012

Date Received

Gibbons  
& Kawash  
Certified Public Accountants

Audited Financial Statements

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

Years Ended June 30, 2010 and 2009

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-14
Accompanying Information:	
Applicable to EastRidge Health Systems:	
Schedule of Expenditures of State Awards	15
Schedule of BHHF Funded Fixed Assets	16-17
Schedule of BHHF Funding Status	18
Schedule of Standardized Financial Statements - Balance Sheet	19-20
Schedule of Standardized Financial Statements - Statement of Activity	21-22
Consolidating Statement of Financial Position	23
Consolidating Statement of Activities	24
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-26
Schedule of Findings and Responses	27

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Eastern Panhandle Mental Health Center, Inc., d/b/a EastRidge Health Systems and Affiliates (the Agency) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eastern Panhandle Mental Health Center, Inc. d/b/a EastRidge Health Systems and Affiliates as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2011, on our consideration of Eastern Panhandle Mental Health Center, Inc. d/b/a EastRidge Health Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2010 audit.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements. The accompanying information for Eastern Panhandle Mental Health Center, Inc. d/b/a EastRidge Health Systems and Affiliates, including the schedules of expenditures of state awards, BHHF funded fixed assets, BHHF funding status, and standardized financial statements, are presented for purposes of additional analysis as required by the West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHHF) and is not a required part of the basic consolidated financial statements. The accompanying information shown on pages 23 to 24 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Jillons Kanash, A.C.*

August 5, 2011

DHHR - Finance

JUN 13 2012

Date Received

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u> (As Restated)
Current assets:		
Cash and cash equivalents	\$ 276,824	\$ 229,243
Grants and contracts receivable, less allowance for doubtful accounts of \$45,177 in 2010 and \$0 in 2009	155,321	169,620
Client fees receivable, less allowance for doubtful accounts of \$392,893 in 2010 and \$259,035 in 2009	804,373	860,590
Other current assets	<u>93,930</u>	<u>77,919</u>
Total current assets	<u>1,330,448</u>	<u>1,337,372</u>
Property and equipment, less accumulated depreciation	2,345,423	2,448,329
Investment	<u>2,558</u>	<u>2,558</u>
Total assets	<u>\$ 3,678,429</u>	<u>\$ 3,788,259</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 724,568	\$ 993,201
Accrued provider tax	18,121	-
Current maturities of long-term debt	62,080	58,189
Note payable - line of credit	630,890	719,028
Deferred revenue	<u>199</u>	<u>17,740</u>
Total current liabilities	<u>1,435,858</u>	<u>1,788,158</u>
Long-term debt, less current maturities	<u>191,517</u>	<u>260,490</u>
Total liabilities	<u>1,627,375</u>	<u>2,048,648</u>
Unrestricted net assets	<u>2,051,054</u>	<u>1,739,611</u>
Total liabilities and net assets	<u>\$ 3,678,429</u>	<u>\$ 3,788,259</u>

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

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Years Ended June 30, 2010 and 2009

	2010	2009 (As Restated)
Changes in unrestricted net assets:		
Revenues:		
Federal funds	\$ 169,131	\$ 197,897
State and other grants	2,333,532	2,232,985
Patient service fees, net	4,595,587	4,870,023
Interest income	822	161
Other income	195,522	77,738
Donated facility	157,500	157,500
Room and board	147,927	157,506
	7,600,021	7,693,810
Expenses:		
Salaries and wages	3,682,181	3,758,487
Employee benefits	861,332	845,101
Contracted services and professional fees	844,314	1,046,573
Repairs and maintenance	75,937	116,331
Supplies	133,242	158,602
Utilities	175,912	188,534
Staff development and travel	69,932	71,111
Advertising	9,136	20,535
Provision for doubtful accounts	190,579	115,996
Occupancy	84,634	99,474
Depreciation	129,148	129,001
Taxes	177,756	184,738
Insurance	215,759	226,648
Telephone	56,566	62,375
Interest	47,566	58,644
Donated facility	157,500	157,500
Equipment rental	61,306	39,824
Other	315,778	338,420
	7,288,578	7,617,894
Increase in net assets	311,443	75,916
Net assets, beginning of year	1,739,611	1,663,695
Net assets, end of year	\$ 2,051,054	\$ 1,739,611

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

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u> (As Restated)
Cash flows from operating activities:		
Increase in net assets	\$ 311,443	\$ 75,916
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	129,148	129,001
Gain on disposal of fixed assets	(2,708)	-
Provision for bad debts	190,579	115,996
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Client fees	(134,362)	(438,482)
Grants and contracts receivable	14,299	176,138
Other current assets	(16,011)	5,409
Increase (decrease) in:		
Accounts payable and accrued expenses	(250,512)	(34,877)
Deferred revenue	(17,541)	15,477
Net cash provided by operating activities	<u>224,335</u>	<u>44,578</u>
Cash flows used in investing activities:		
Purchases of property and equipment	(74,041)	(71,814)
Proceeds from sale of fixed assets	<u>50,507</u>	<u>-</u>
Net cash used in investing activities	<u>(23,534)</u>	<u>(71,814)</u>
Cash flows from financing activities:		
Net proceeds from (payments on) line of credit	(88,138)	162,978
Proceeds from issuance of long-term debt	100,000	-
Principal payments on long-term debt	<u>(165,082)</u>	<u>(158,869)</u>
Net cash provided by (used in) financing activities	<u>(153,220)</u>	<u>4,109</u>
Net increase (decrease) in cash	47,581	(23,127)
Cash and cash equivalents, beginning of year	<u>229,243</u>	<u>252,370</u>
Cash and cash equivalents, end of year	<u>\$ 276,824</u>	<u>\$ 229,243</u>

The accompanying notes are an integral part of these financial statements

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Organization and Principles of Consolidation

These financial statements present the consolidated accounts and activities of Eastern Panhandle Mental Health Center, Inc d/b/a Eastridge Health Systems, Nar Roberts, Jr , Incorporated and Hoffmaster Homes of Martinsburg (collectively referred to as “the Agency”).

The primary purpose of the Eastern Panhandle Mental Health Center, Inc , d/b/a EastRidge Health Systems (Eastridge) is to develop, operate, and maintain mental health facilities and services for individuals residing in Berkeley, Morgan, and Jefferson counties in West Virginia.

Nar Roberts Jr., Incorporated (Nar Roberts) and Hoffmaster Homes of Martinsburg, Incorporated (Hoffmaster Homes), are separate corporations formed to provide housing to persons with mental illness or mental retardation/developmental disabilities, respectively.

Eastridge, Nar Roberts, and Hoffmaster Homes are related through common management. Eastridge has control over selection and approval of the boards of directors of Nar Roberts and Hoffmaster Homes. All significant interorganization accounts and transactions are eliminated in consolidation

Basis of Accounting

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

Cash and Cash Equivalents

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

Included in cash and accounts payable are separate accounts for client funds not owned by the Agency. The funds, which amounted to \$116,619 and \$68,035 at June 30, 2010 and 2009, respectively, are maintained for individuals residing in the group homes

Property and Equipment

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



EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

Property and Equipment (Continued)

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

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

Net Client Revenues

The Agency has agreements with third-party payors that provide for payments to the Agency at amounts different from its established rates. Net client revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third-party payors. The allowance for doubtful accounts is based on management's experience and analysis of prior year collections. The Agency's policy for writing off bad debts includes writing off amounts based on the age of the account and management's assessment of the likelihood of collection.

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

Use of Estimates

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

Net Assets

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

As of June 30, 2010, the equity of Nar Roberts and Hoffmaster Homes included \$1,179,955 and \$335,823, respectively, received under capital advance agreements with HUD. The capital advance agreements with HUD state that the advances shall bear no interest and are not required to be repaid so long as the housing remains available to eligible, very low income households for a period of 40 years in accordance with Section 811. Failure to do so would result in HUD billing Nar Roberts or Hoffmaster Homes for the entire capital advance outstanding plus interest since the date of the first advance.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

Government Grants

Government grants are accounted for as either contributions or exchange transactions depending on the specific characteristics of each grant agreement

Income Tax Status

Eastridge is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Nar Roberts, which is not a private foundation, is recognized as exempt from income taxes under Section 501(c)(3) of the IRC. Hoffmaster Homes is in the process of applying for exemption from income taxes under Section 501(c)(3) of the IRC. Therefore, the Agency is not subject to taxes on income derived from its exempt activities. The Agency is generally no longer subject to examination by taxing authorities for years prior to June 30, 2007.

Subsequent Events

The date to which events occurring after June 30, 2010 have been evaluated for possible adjustment to or disclosure in the financial statements is August 5, 2011, which is the date on which the financial statements were available to be issued.

**2 – PRIOR PERIOD RESTATEMENT**

The Agency has restated the net assets of Hoffmaster Homes as of June 30, 2009, to reflect previously unrecorded transactions. As a result, certain 2009 balances have been restated as follows: current assets decreased by \$1,909, net property plant and equipment decreased by \$15,214, and accounts payable and accrued expenses decreased by \$5,694, resulting in a decrease in net assets previously reported of \$11,429 as of July 1, 2009.

**3 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	June 30	
	2010	2009 (As Restated)
Land	\$ 337,261	\$ 309,981
Buildings and improvements	2,774,352	2,776,853
Vehicles	240,808	237,848
Leasehold improvements	371,395	388,047
Furniture and equipment	1,041,683	979,019
Land and buildings held for resale	-	82,594
Construction in progress	-	15,535
	4,765,499	4,789,877

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**3 - PROPERTY AND EQUIPMENT (Continued)**

	June 30	
	2010	2009 (As Restated)
Less accumulated depreciation and amortization	2,420,076	2,341,548
	\$ 2,345,423	\$ 2,448,329

The following represents cost and accumulated depreciation of property and equipment purchased with West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHBF) grant funds at June 30, 2010 and 2009, respectively:

	2010	2009
Cost	\$ 733,961	\$ 707,121
Accumulated depreciation	(303,974)	(281,036)
Property and equipment, net	\$ 429,987	\$ 426,085

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

**4 - DEBT**

Long-term debt consisted of the following:

	2010	2009
Note payable to government agency, payable in monthly installments of \$4,167, non-interest bearing, discounted at a rate of 8%, final payment due June 2012, unsecured	\$ 87,316	\$ 128,158
Note payable to bank, payable in monthly installments of \$1,324, including interest at prime plus 1%, final balloon payment of \$59,000 due August 5, 2013, secured by real estate	97,877	116,549

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**4 – DEBT (Continued)**

	2010	2009
Note payable to government agency, payable in monthly installments of \$821, non-interest bearing, discounted at a rate of 6%, final payment due June 2019, unsecured	68,404	73,972
	253,597	318,679
Less current portion	62,080	58,189
	\$ 191,517	\$ 260,490

Maturities of long-term debt are as follows:

June 30	
2011	\$ 62,080
2012	61,834
2013	19,661
2014	68,107
2015	7,510
Thereafter	34,405
	\$ 253,597

The Agency has a \$750,000 line of credit with a local bank, with interest payable at 1% above the New York Prime Rate, secured by accounts receivable. At June 30, 2010 and 2009, the balance outstanding under this line of credit was \$630,890 and \$719,028, respectively. The line of credit has been extended through November 25, 2011.

Cash paid for interest during the years ended June 30, 2010 and 2009, was \$47,566 and \$58,644, respectively.

**5 - LEASES**

The Agency leases two buildings from the State of West Virginia on a year-to-year basis with annual lease payments equaling \$1 under each lease. Revenue and corresponding rent expense have been recognized for the annual fair rental value of the leased facilities in the amount of \$157,500 for the years ending June 30, 2010 and 2009. The fair value of the use of the facilities was based on the rental price per square foot of similar buildings in the local area.

The Agency leases certain facilities and office equipment under operating lease agreements that expire in various years through December 31, 2018. Rent expense on all operating leases was \$145,933 and \$139,301 for the years ended June 30, 2010 and 2009, respectively.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**5 – LEASES (Continued)**

Future minimum lease payments under operating leases are as follows:

<u>Year Ended June 30</u>	
2011	\$ 124,215
2012	124,594
2013	123,499
2014	48,638
2015	26,834
Thereafter	<u>97,077</u>
	<u>\$ 544,857</u>

**6 - COMMITMENTS**

During 2010, the Agency entered into an agreement with a vendor to access and use accounting software. As required by the agreement, the Agency incurred and paid \$45,750 in implementation fees, which are reported as prepaid expenses. The use of the software requires monthly payments of \$3,698 and payments will begin when the software is installed by the Agency. After the second year of the agreement, the monthly recurring charges are scheduled to increase 3.5% per year. The Agency plans to implement the software during 2012. The initial term of the agreement is three years and will automatically renew for an unlimited number of additional one year terms unless either party notifies the other party of its intention not to renew.

In July 2011, in connection with the software implementation, the Agency entered into a note payable for \$98,665 that requires 36 monthly payments of \$3,090 and bears interest at a rate of 7.98%

**7 - EMPLOYEE BENEFIT PLAN**

The Agency provides a 403(b) defined contribution retirement plan (the Plan) for its employees. Employees are eligible to participate in the Plan upon attaining the age of 21 years. The Board of Directors determines contributions to be made to the plan each year; however, contributions cannot exceed 5% of each covered employee's salary. Total contributions under this plan amounted to \$75,439 and \$80,223 for the years ended June 30, 2010 and 2009, respectively.

The Agency receives non-vested forfeitures directly from the trustee for former participants in the defined contribution plan during each year. These forfeiture amounts are credited to pension expense when received. Total non-vested forfeitures received by the Agency for the years ended June 30, 2010 and 2009, were \$3,940 and \$6,011, respectively.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

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

Revenue recognized from client services is as follows for the years ended June 30, 2010 and 2009:

	June 30, 2010		
	Gross Patient Revenue	Less: Contractual Adjustments, Charity Care	Net Patient Revenue
Medicaid	\$ 803,170	\$ 203,268	\$ 599,902
Medicaid waiver	3,264,753	166,413	3,098,340
Medicare	119,020	49,038	69,982
Private pay	274,790	60,445	214,345
Insurance	125,454	55,366	70,088
Uncompensated care	260,376	260,376	-
Other	559,737	16,807	542,930
Total	\$ 5,407,300	\$ 811,713	\$ 4,595,587

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

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

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

Grants received from the State of West Virginia, including federal grants paid through the state, amounted to \$2,451,046, and \$2,285,029 for the years ended June 30, 2010 and 2009, which comprised 32% and 30% of total revenues for each year. Should a significant reduction in this funding occur, the Agency's programs and activities would be significantly impacted.

**9 - CONCENTRATION OF CREDIT RISK**

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

**10 - FUNCTIONAL EXPENSES**

Eastridge provides mental health services to residents within Berkeley, Morgan, and Jefferson counties in West Virginia. The expenses for Nar Roberts and Hoffmaster Homes relate specifically to costs incurred for operating Section 8 Housing and Urban Development facilities. Expenses related to providing these services for the years ended June 30, 2010 and 2009, are as follows:

	2010	2009
Health care services	\$ 5,296,807	\$ 5,562,415
Housing	162,816	168,848
General and administrative	1,828,955	1,886,631
	\$ 7,288,578	\$ 7,617,894

**11 - CONTINGENCIES**

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

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

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

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)

**11 – CONTINGENCIES (Continued)**

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

**12 - MANAGEMENT CONTRACT**

During May 2002, the Agency entered into a management contract with Valley Comprehensive Community Mental Health Center, Inc., d/b/a Valley HealthCare System (Valley). Under this contract, Valley provides administrative systems, accounting, utilization management and other administrative services to the Agency. The contract was terminated in October 31, 2009. The terms of the contract stipulated a monthly fee of \$5,000 for accounting services along with fees charged per transaction for various management services. During the years ended June 30, 2010 and 2009, the Agency incurred expenses under the contract of \$23,152 and \$146,913 respectively, and recorded a related payable at June 30, 2009, of \$76,374.

**13 – NEW ACCOUNTING PRONOUNCEMENTS**

In August 2010, Accounting Standards Update (ASU) 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*, was issued. The ASU, which is effective for the Agency's fiscal year ending June 30, 2012, will require health care entities to measure and disclose charity care based on the costs of providing such care. The use of a revenue measurement in disclosing charity care is eliminated. The effect of implementing this ASU on the Agency's disclosure of charity care amounts has not been determined.



**ACCOMPANYING INFORMATION**

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2010

State Grantor/Program Title	State Grantor's Number	Program or Award Amount	Deferred Revenue July 1, 2009	Disbursements/ Expenditures	Deferred Revenue June 30, 2010
<u>West Virginia Department of Health and Human Resources</u>					
Uncompensated Care	0525-2010-3065-219-252/258	\$ 609,975	-	\$ 609,975	-
Uncompensated Care	0525-2007-3065-219-252	203,323	-	203,323	-
MI-Client Crisis Improvement	0525-2010-2851-219-252/258	191,294	-	136,459	-
Supportive Services	0525-2010-3041-219-252/258	325,543	-	325,543	-
Community Support Funds	0525-2010-3702-219-252/258	154,579	-	126,386	-
DD-Client Core Services	0525-2010-2870-219-252/258	209,300	-	209,300	-
Case Mgmt Improvement	0525-2010-2851-219-252/258	25,000	-	3,609	-
Family Support	0525-2010-2870-221-252/258	72,385	-	72,385	-
Special Needs	0525-2010-2851-219-252/258	184,864	-	184,864	-
PI Shelter	0525-2010-2885-219-252/258	81,800	-	45,520	-
MH-Client Core Services	0525-2010-2851-219-252/258	139,633	-	139,633	-
Care Coordinator Improvement	0525-2010-3701-219-252	40,000	-	25,840	-
		<u>\$ 2,237,696</u>	<u>-</u>	<u>\$ 2,082,837</u>	<u>-</u>
<u>Total Department of Health and Human Resources</u>					
		<u>\$ 127,557</u>	<u>-</u>	<u>\$ 127,557</u>	<u>-</u>
<u>West Virginia Department of Education and the Arts</u>					
<u>Division of Rehabilitation Services</u>					
Rehabilitative Services	100214	<u>\$ 127,557</u>	<u>-</u>	<u>\$ 127,557</u>	<u>-</u>
		<u>\$ 2,365,253</u>	<u>-</u>	<u>\$ 2,210,394</u>	<u>-</u>
<u>Total State Awards</u>					

See Independent Auditor's Report.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

BHHF ASSETS - EQUIPMENT AND AUTOMOBILES  
CUMULATIVE PROPERTY SCHEDULE

June 30, 2010

Description	Asset Type	ID	Date	Life	Amount	State Account Number
File Cabinet	Furniture	173	27-Jun-94	5	318	Unknown
Freezer	Furniture	174	30-Jun-94	5	529	Unknown
Furniture	Furniture	114	30-Jun-93	5	761	Unknown
Computers	Computer	338	01-Jul-99	5	1,853	Unknown
Furniture	Furniture	113	25-Feb-93	5	2,046	Unknown
Gateway Computers	Computer	330	01-May-99	5	5,050	Unknown
Computers	Computer	115	30-Oct-92	5	5,778	Unknown
Computers	Computer	98	27-Oct-92	5	7,847	Unknown
5 Drawer Lateral Filing Cabinet	Furniture		03-Jun-03	5	731	0525-2007-2890-219-252/258
94 Van	Vehicle	143	31-Dec-93	5	19,468	Unknown
2000 Van	Vehicle	349	01-Sep-00	5	39,967	Unknown
Equipment and Service	Computer		12-Nov-09	5	23,909	Unknown
Computer software	Computer		23-Nov-09	5	4,760	Unknown

TOTALS 6/30/2010

\$ 113,017

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

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

June 30, 2010

Description	ID	Date	Amount	Life	State Account Number
Light Fixtures	132	31-Jul-93	231	15	Unknown
Handrail	178	20-May-94	300	15	Unknown
Engineering	176	13-Jul-93	1,168	5	Unknown
Site Fees/Plans	118	02-Aug-93	1,293	30	Unknown
Construction	136	02-Aug-93	1,333	30	Unknown
Site Fees/Plans	120	02-Aug-93	1,573	30	Unknown
Site Fees/Plans	119	02-Aug-93	1,859	30	Unknown
Site Fees/Plans	122	02-Aug-93	2,112	30	Unknown
Martin St. Furn	180	20-Jun-94	2,669	5	Unknown
New Asphalt	137	31-Dec-93	3,045	15	Unknown
Sprinkler System	133	31-Aug-93	5,250	30	Unknown
Gutters and Painting	135	31-Dec-93	9,760	15	Unknown
Deck	179	20-May-94	13,475	15	Unknown
Property Purchase	121	02-Aug-93	23,800	30	Unknown
Reroof John St.	117	02-Aug-93	117,142	30	Unknown
Buildings - Martin	234	01-Jul-94	52,550	30	Unknown
Elevator Replacement	352	01-Nov-06	129,045	20	Unknown
Water Line/Sprinkler/Fire Alarm/General Rehab and Replacement		01-Apr-05	58,810	30	Unknown
Grove Center Roof Repairs		13-Jun-06	135,000	20	Unknown
Grove Center Fire Alarm Install		15-May-08	3,386	20	Unknown
Mid Atlantic sprinkler		11-Apr-06	17,785	20	Unknown
Grove Center Fire Alarm install		02-Oct-08	13,062	20	Unknown
Grove Center Fire Alarm install		01-Dec-08	784	20	Unknown
Fire Alarm Install		22-Dec-08	2,300	20	Unknown
Fire Alarm Install		31-Mar-09	4,000	20	Unknown
Fire Alarm Install		29-Apr-09	3,677	20	Unknown
Fire Alarm Upgrades		01-Jul-09	4,223	20	Unknown
Fire Alarm Upgrades		01-Jul-09	2,845	20	Unknown
Fire Alarm Upgrades		01-Jul-09	1,141	20	Unknown
Fire Alarm Upgrades		01-Jul-09	5,469	20	Unknown
Fire Alarm Upgrades		01-Jul-09	1,857	20	Unknown

TOTALS 6/30/2010

\$ 620,944

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

SCHEDULE OF BHHF FUNDING STATUS

Year Ended June 30, 2010

State Account Number	Current Year Award Amount	Award Extended from Prior Year	Award Deferred Revenue July 1, 2009	Amount Earned and Billed	Deferred Revenue June 30, 2010	Amount not Billed	Amount Collected in Current Year
8723-2011-2849-096-128-17653	\$ 7,500	-	\$ -	\$ 7,500	-	\$ -	\$ -
8793-2010-2892-096-128-16746	74,850	-	-	24,552	-	50,298	24,552
8793-2010-2885-096-128-16746	131,000	-	-	104,862	-	26,138	90,953
0525-2010-3065-219-252/258	609,975	-	-	609,975	-	-	609,975
0525-2007-3065-219-252	203,323	-	-	203,323	-	-	203,323
0525-2010-2851-219-252/258	191,294	-	-	136,459	-	54,835	73,930
0525-2010-2851-219-252/258	139,633	-	-	139,633	-	-	139,633
0525-2010-3041-219-252/258	325,543	-	-	325,543	-	-	325,543
0525-2010-3702-219-252/258	154,579	-	-	126,386	-	28,193	99,859
0525-2010-2870-219-252/258	209,300	-	-	209,300	-	-	209,300
0525-2010-2851-219-252/258	25,000	-	-	3,609	-	21,391	-
0525-2010-2870-221-252/258	72,385	-	-	72,385	-	-	42,357
0525-2010-2851-219-252/258	184,864	-	-	184,864	-	-	154,052
0525-2010-2885-219-252/258	81,800	-	-	45,520	-	36,280	24,243
0525-2010-3701-219-252	40,000	-	-	25,840	-	14,160	25,840
Total	\$ 2,451,046	\$ -	\$ -	\$ 2,219,751	\$ -	\$ 231,295	\$ 2,023,560

See Independent Auditor's Report.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

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

June 30, 2010

ASSETS

CURRENT ASSETS:

1.	Cash	\$	138,082
2.	Short Term Investments		-
3.	Accounts Receivable - OBHS		195,994
4.	Accounts Receivable - Client		60,256
5.	Accounts Receivable - Medicaid		309,104
6.	Accounts Receivable - Medicaid MR/DD Waiver		508,273
7.	Accounts Receivable - Other		324,135
7a.	Allowance for Doubtful Accounts		(438,070)
8.	Inventory		2,608
9.	Prepaid/Other		91,324
10.	TOTAL CURRENT ASSETS		1,191,706
	(Total of lines 1-9)		

NON-CURRENT ASSETS:

FIXED ASSETS

11.	Property, Land and Equipment - OBHS		736,005
12.	Less Accumulated Depreciation		(303,974)
13.	Property, Land and Equipment - Other		2,227,974
14.	Less Accumulated Depreciation		(1,702,494)
15.	Total Property, Land and Equipment (NET)		957,511

OTHER NON-CURRENT ASSETS

16.	Long-Term Investments		2,558
17.	Other		-
18.	TOTAL ASSETS	\$	2,151,775
	(Total of lines 10, 15, 16 and 17)		

(Continued)

## EASTRIDGE HEALTH SYSTEMS

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

## ACCRUAL BASIS

(Continued)

June 30, 2010

## LIABILITIES

## CURRENT LIABILITIES:

19.	Accounts Payable	\$	250,317
20.	Taxes Payable		23,651
20 A	Provider Taxes Payable		18,121
21.	Line of Credit - Payable		630,890
22.	Short-Term Notes Payable		71,819
23.	Accrued Expenses		281,789
24.	Other Current Liabilities		<u>158,134</u>
25.	TOTAL CURRENT LIABILITIES (Total of lines 19 through 24)		1,434,721

## LONG-TERM LIABILITIES:

26.	Long-Term Notes Payable		181,778
27.	Other Long-Term Liabilities		<u>-</u>
28.	TOTAL LIABILITIES (Total of lines 25, 26 and 27)		1,616,499

## NET ASSETS

29.	Unrestricted Net Assets		535,276
30.	Temporarily Restricted Net Assets		-
31.	Permanently Restricted Net Assets		<u>-</u>
32.	TOTAL LIABILITIES AND NET ASSETS (Total of lines 28 through 31)	\$	<u>2,151,775</u>

See Independent Auditor's Report.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC  
d/b/a EASTRIDGE HEALTH SYSTEMS

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

June 30, 2010

REVENUE AND SUPPORT

1.	Charity Care	\$	-
1a.	Charity Care - Account 4311.1		75,830
1b.	Charity Care - Account 4311.2		184,741
1c.	Charity Care - Account 4312.1		-
1d.	Charity Care - Account 4312.2		-
1e.	Charity Care - Account 4314.1		-
1f.	Charity Care - Account 4314.2		-
1g.	Charity Care - Account 4315.1		(5,253)
1h.	Contractual Write-Off Charity - Account 4337.1		-
1i.	Charity Care Revenue - Account 4329		(260,376)
1j.	Support/Alternative Svcs. Rev. - Account 4358		5,253
	Total (Should equal zero)		<u>195</u>
2.	Gross Client Service Revenue		5,535,379
3.	Contractual Adjustments (Target Funds)		(75,830)
3a.	Contractual Adjustments (Non-Target Funds)		<u>(805,912)</u>
5.	Net Client Service Revenue		4,653,637
	Net Client Service Revenue		
6.	Medicaid (Target Funds)		-
6a.	Medicaid (Non-Target Funds)		570,638
7.	Medicaid MR/DD Waiver (Non-Target Funds)		3,098,340
8.	ICF/MR (Non-Target Funds)		-
9.	Private Pay (Non-Target Funds)		214,345
9a.	Private Pay (OBHS Target Funds)		-
9b.	Private Pay (OBHS Non-Target Funds)		-
10.	Other Client Service Revenue (Target Funds)		-
10a.	Other Client Service Revenue (Non-Target Funds)		<u>770,314</u>

(Continued)



EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES  
SCHEDULE OF STANDARDIZED FINANCIAL STATEMENTS-  
STATEMENT OF ACTIVITY FOR COMPREHENSIVE AND MR/DD FACILITIES  
ACCRUAL BASIS  
(Continued)

Year Ended June 30, 2009

11	Total Net Client Service Revenue	4,653,637
	(Line 11 must agree with line 5)	-
12.	OBHS Support	2,354,475
13.	Other/Public Support	7,500
14.	Other	<u>304,096</u>
15.	TOTAL REVENUE AND SUPPORT	<u>7,319,708</u>
	(Total of line 11 through line 14)	
	EXPENSES	
16.	Salaries	3,682,181
17.	Fringe Benefits	861,332
18.	Contractual Services	735,325
19.	Provider Tax	171,137
19 A	Bad Debts	190,579
19 B	Bad Debts (BHHF Target Funds)	-
19 C	Bad Debts (BHHF Non-Target Funds)	-
20	Depreciation Expense	88,195
21.	Other Expenses	<u>1,252,028</u>
22.	TOTAL EXPENSES	<u>6,980,777</u>
	(Total of line 16 through line 21)	
23.	NET INCOME (LOSS)	<u>\$ 338,931</u>
	(Line 15 minus line 22)	

See Independent Auditor's Report.

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2010 and 2009

	EastRidge Health Systems	Nar Roberts, Jr., Incorporated	Hoffmaster Homes, Incorporated	Eliminating Entries
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 138,082	\$ 111,323	\$ 27,419	\$ -
Grants and contracts receivable, less allowance for doubtful accounts	155,321	-	-	-
Client fees receivable, less allowance for doubtful accounts	804,373	-	-	-
Other current assets	93,930	-	-	-
Total current assets	1,191,706	111,323	27,419	-
Property and equipment, net	957,511	1,077,082	310,830	-
Investment	2,558	-	-	-
Total assets	2,151,775	1,188,405	338,249	-
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Accounts payable and accrued expenses	713,890	8,252	2,426	-
Accrued provider tax	18,121	-	-	-
Current maturities of long-term debt	62,080	-	-	-
Note payable - line of credit	630,890	-	-	-
Deferred revenue	1	198	-	-
Total current liabilities	1,424,982	8,450	2,426	-
Long-term debt, less current maturities	191,517	-	-	-
Total liabilities	1,616,499	8,450	2,426	-
Unrestricted net assets	535,276	1,179,955	335,823	-
Total liabilities and net assets	\$ 2,151,775	\$ 1,188,405	\$ 338,249	\$ -

See Independent Auditor's Report.

<u>2010</u> <u>Consolidated</u>	<u>2009</u> <u>Consolidated</u> <u>(As Restated)</u>
\$ 276,824	\$ 229,243
155,321	169,620
804,373	860,590
<u>93,930</u>	<u>77,919</u>
<u>1,330,448</u>	<u>1,337,372</u>
2,345,423	2,448,329
<u>2,558</u>	<u>2,558</u>
<u>3,678,429</u>	<u>3,788,259</u>
724,568	993,201
18,121	-
62,080	58,189
630,890	719,028
<u>199</u>	<u>17,740</u>
<u>1,435,858</u>	<u>1,788,158</u>
<u>191,517</u>	<u>260,490</u>
<u>1,627,375</u>	<u>2,048,648</u>
<u>2,051,054</u>	<u>1,739,611</u>
<u>\$ 3,678,429</u>	<u>\$ 3,788,259</u>

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

Years Ended June 30, 2010 and 2009

	EastRidge Health Systems	Nar Roberts, Jr., Incorporated	Hoffmaster Homes, Incorporated	Eliminating Entries
<b>Revenues and other support:</b>				
Federal funds	\$ 129,414	\$ 27,458	\$ 12,259	\$ -
State and other grants	2,333,532	-	-	-
Patient service fees, net	4,595,587	-	-	-
Interest income	2	796	24	-
Other income	205,226	1,335	1,476	(12,515)
Donated facility	157,500	-	-	-
Room and board	55,947	58,743	33,237	-
Total revenues and other support	7,477,208	88,332	46,996	(12,515)
<b>Expenses:</b>				
Salaries and wages	3,682,181	-	-	-
Employee benefits	861,332	-	-	-
Contracted services and professional fees	806,979	33,590	16,260	(12,515)
Repairs and maintenance	65,904	4,861	5,172	-
Supplies	128,028	1,818	3,396	-
Utilities	119,815	35,770	20,327	-
Staff development and travel	69,932	-	-	-
Advertising	9,136	-	-	-
Provision for doubtful accounts	190,579	-	-	-
Occupancy	84,634	-	-	-
Depreciation	88,195	30,339	10,614	-
Taxes	177,671	-	85	-
Insurance	215,759	-	-	-
Telephone	56,566	-	-	-
Interest	47,566	-	-	-
Donated facility	157,500	-	-	-
Equipment rental	61,306	-	-	-
Other	315,194	584	-	-
Total expenses	7,138,277	106,962	55,854	(12,515)
Change in net assets	338,931	(18,630)	(8,858)	-
Net assets, unrestricted - beginning of year, as restated	196,345	1,198,585	344,681	-
Net assets, unrestricted - end of year	\$ 535,276	\$ 1,179,955	\$ 335,823	\$ -

See Independent Auditor's Report

2010 Consolidated	2009 Consolidated (As Restated)
\$ 169,131	\$ 197,897
2,333,532	2,232,985
4,595,587	4,870,023
822	161
195,522	77,738
157,500	157,500
<u>147,927</u>	<u>157,506</u>
<u>7,600,021</u>	<u>7,693,810</u>
3,682,181	3,758,487
861,332	845,101
844,314	1,046,573
75,937	116,331
133,242	158,602
175,912	188,534
69,932	71,111
9,136	20,535
190,579	115,996
84,634	99,474
129,148	129,001
177,756	184,738
215,759	226,648
56,566	62,375
47,566	58,644
157,500	157,500
61,306	39,824
<u>315,778</u>	<u>338,420</u>
<u>7,288,578</u>	<u>7,617,894</u>
311,443	75,916
<u>1,739,611</u>	<u>1,663,695</u>
<u>\$ 2,051,054</u>	<u>\$ 1,739,611</u>

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

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

We have audited the financial statements of Eastern Panhandle Mental Health Center, Inc. d/b/a EastRidge Health Systems (the Organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated August 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-1 to be a material weakness.

Compliance and Other Matters

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

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

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

*Jellison & Kanash, A.C.*

August 5, 2011

DHHR - Finance

JUN 13 2012

Date Received

EASTERN PANHANDLE MENTAL HEALTH CENTER, INC.  
d/b/a EASTRIDGE HEALTH SYSTEMS

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2010

**2010-1 FINANCIAL REPORTING**

Condition:

We noted that the monthly financial statements presented to the Board of Directors for review were not accurate.

Criteria

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

Effect:

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

Cause:

The Organization's policies and controls over financial reporting were not functioning as designed.

Recommendation:

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

Management Response:

Management has hired new accounting staff including a CFO to address the problems noted in Finding #2010-1. This staff has reviewed and continues to review all accounting practices of the Organization. Changes have been made to assure that financials are produced accurately and timely. Additionally, the new CFO is carefully reviewing all reports prior to submission to the Board of Directors.

DHHR - Finance

JUN 13 2012

Date Received