

APPALACHIAN COMMUNITY
HEALTH CENTER, INC.

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

AND

INDEPENDENT AUDITORS' REPORTS

DHHR - Finance

NOV 22 2010

Date Received

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CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, 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, 2010 and 2009, 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 10, 2010 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 Order #G100000, 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 2010 financial statements taken as a whole.



Charleston, West Virginia

November 10, 2010

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

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	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 244,317	\$ 8,831
Investments	915,000	915,000
Patient receivables, less allowance for doubtful accounts and contractual adjustments: \$25,000 and \$100,000 in 2010 and 2009, respectively	323,615	403,807
Contract services receivable	50,234	110,600
Prepaid expenses and deposits	72,134	75,821
Other current assets	17,135	23,153
Total current assets	1,622,435	1,537,212
Property and equipment		
Land	114,276	114,276
Building	1,074,640	1,074,640
Equipment	1,259,268	1,257,095
Vehicles	442,354	442,354
	2,890,538	2,888,365
Less accumulated depreciation	2,591,333	2,513,538
Total property and equipment	299,205	374,827
	\$ 1,921,640	\$ 1,912,039
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 265,349	\$ 248,333
Line of Credit	175,000	-
Accrued annual leave	109,597	120,084
Total current liabilities	549,946	368,417
Liability for pension benefits	584,136	587,191
Net assets - unrestricted	787,558	956,431
	\$ 1,921,640	\$ 1,912,039

The Accompanying Notes Are An Integral
Part Of These Financial Statements

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2010 AND 2009

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	<u>2010</u>	<u>2009</u>
Revenue and support		
Net patient service revenue	\$ 2,030,146	\$ 2,373,835
Support from West Virginia Bureau for Behavioral Health and Health Facilities	1,453,143	1,507,339
Support from other government programs	89,723	531,094
Other	<u>26,974</u>	<u>54,297</u>
Total revenue and support	<u>3,599,986</u>	<u>4,466,565</u>
Expenses		
Salaries and wages	2,016,220	2,448,174
Employee benefits	796,826	693,614
Contractual and professional	269,318	339,541
Travel	94,423	94,393
Telephone	67,295	67,212
Rent and utilities	124,456	137,436
Depreciation	77,795	77,649
Repairs, maintenance and small equipment	69,055	88,119
Insurance	120,461	120,446
Health care provider tax	70,342	95,709
Other	<u>167,396</u>	<u>431,958</u>
Total expenses	<u>3,873,587</u>	<u>4,594,251</u>
Change in unrestricted net assets before effect of pension-related changes other than net periodic pension cost.	(273,601)	(127,686)
Pension-related changes other than net periodic pension cost	<u>104,728</u>	<u>(184,724)</u>
CHANGE IN UNRESTRICTED NET ASSETS	(168,873)	(312,410)
Net assets - unrestricted, beginning of year	<u>956,431</u>	<u>1,268,841</u>
Net assets - unrestricted, end of year	<u>\$ 787,558</u>	<u>\$ 956,431</u>

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2010 AND 2009

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	2010	2009
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (168,873)	\$ (312,410)
Adjustments		
Depreciation	77,795	77,649
Decrease (increase) in operating assets		
Patient receivables	80,192	(88,581)
Contract services receivable	60,366	233
Prepaid expenses and deposits	3,687	1,613
Other current assets	6,018	12,018
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	17,016	(74,867)
Accrued annual leave	(10,487)	(17,987)
Accrued pension costs	(3,055)	146,912
Net cash provided (used) in operating activities	62,659	(255,420)
Cash flows from investing activities		
Cash purchases of property and equipment	(2,173)	(15,686)
Net cash provided (used) in investing activities	(2,173)	(15,686)
Cash flows from financing activities		
Proceeds from line of credit	175,000	-
Net cash provided (used) in financing activities	175,000	-
Net increase (decrease) in cash and cash equivalents	235,486	(271,106)
Cash and cash equivalents, beginning of year	8,831	279,937
Cash and cash equivalents, end of year	\$ 244,317	\$ 8,831
Supplemental disclosures of cash flow information		
Cash payments for interest	\$ 5,414	\$ 1,282

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

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.

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 \$17,504 at June 30, 2010.

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.

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 \$25,000 and \$100,000 for the years ended June 30, 2010 and 2009, respectively, and has been netted against accounts receivable and net patient service revenue.

SUBSEQUENT EVENTS - In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through November 10, 2010, the date the financial statements were issued.

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, 2010, total bank balances exceeded federal deposit insurance and collateral by approximately \$590.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2010 AND 2009

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>2010</u>	<u>2009</u>
Medicaid	33%	37%
Medicaid waiver	53%	42%
Patients	7%	7%
Other third-party payers	<u>7%</u>	<u>14%</u>
	<u>100%</u>	<u>100%</u>

NOTE 4 - NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2010, the Center had a line of credit with a local bank totaling \$750,000. The amount outstanding under this line of credit was \$175,000 at June 30, 2010.

Interest expense incurred by the Center for the years ended June 30, 2010 and 2009 was \$5,414 and \$1,282, 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>2010</u>	<u>2009</u>
West Virginia Department of Health and Human Resources		
Bureau for Behavioral Health and Health Facilities	\$ 1,453,143	\$ 1,507,339
Bureau of Public Health	-	148,750
Medicaid	734,706	1,050,744
Medicaid Waiver	1,009,050	1,033,978
Other	<u>403,087</u>	<u>725,754</u>
	<u>\$ 3,599,986</u>	<u>\$ 4,466,565</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, 2010 AND 2009

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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:

2011	\$ 27,900
2012	27,900
2013	27,900
2014	27,900
2015	<u>11,625</u>

~~Total minimum rental commitments~~ \$ 123,225

Total rent expense for the years ended June 30, 2010 and 2009 was \$55,893 and \$59,968, 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, 2010, the Center accounts for its pension costs in conformity with the Compensation-Retirement Benefits Topic of the FASB Accounting Standards Codification. Pension expense charged to operations for the years ended June 30, 2010 and 2009 was \$305,673 and \$166,188, 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, 2010 AND 2009

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NOTE 7 - PENSION PLAN (Continued)

Components of pension expense for the years ended June 30, 2010 and 2009 include: the following:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 115,311	\$ 127,115
Interest cost	169,939	175,981
Expected return on plan assets	(76,272)	(123,903)
Amortization of prior service cost	(36,291)	(35,702)
Recognized net actuarial loss	29,035	22,697
Settlement loss	<u>103,951</u>	<u>-</u>
Total pension expense	<u>\$ 305,673</u>	<u>\$ 166,188</u>

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

	<u>2010</u>	<u>2009</u>
Discount rate	5.75%	6.00%
Rate of increase in compensation levels	2.50%	2.50%
Expected long-term rate of return on assets	3.25%	3.25%

In determining the expected long-term rate of return of assets, historical returns for various investment categories were used, considering the current allocation of plan assets. The following were used as benchmarks to estimate the long-term rates of return:

Benchmark	<u>Average Annual Returns</u>	
	<u>5 year</u>	<u>10 year</u>
S&P 500	-0.79%	-1.59%
BarCap Aggregate Bond	5.54%	6.47%
BarCap Municipal	4.40%	5.63%

As required by accounting principles generally accepted in the United States of America, the Center recognizes 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 are recognized as nonoperating changes in unrestricted net assets.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 7 - PENSION PLAN (Continued)

The funding status of the plan as of June 30, 2010 and 2009 are summarized below.

	<u>2010</u>	<u>2009</u>
Net amount recognized at year-end		
Projected benefit obligation	\$ 2,881,183	\$ 3,072,117
Fair value of plan assets	<u>2,297,047</u>	<u>2,484,926</u>
Liability for pension benefits	<u>\$ 584,136</u>	<u>\$ 587,191</u>
Items not yet recognized as a component of the net periodic pension cost		
Unrecognized prior service cost	\$ (20,245)	\$ (56,536)
Unrecognized actuarial (gain)/loss	<u>695,669</u>	<u>836,688</u>
Effect of adoption of FASB 158	<u>\$ 675,424</u>	<u>\$ 780,152</u>

The following summarizes the change in the projected benefit obligations for the years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Benefit obligation at beginning of year	\$ 3,072,117	\$ 2,827,720
Service cost	115,311	127,115
Interest cost	169,939	175,981
Settlement loss	28,994	-
Benefits paid	-	(173,912)
Settlement payments	(430,647)	-
Actuarial (gain) or loss	<u>(74,531)</u>	<u>115,213</u>
Benefit obligation at end of year	<u>\$ 2,881,183</u>	<u>\$ 3,072,117</u>

The following summarizes the changes in plan assets at fair value for the years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Fair value of plan assets at beginning of year	\$ 2,484,926	\$ 2,387,441
Actual return on plan assets	38,768	67,397
Employer contributions	204,000	204,000
Benefits paid	-	(173,912)
Settlement payments	<u>(430,647)</u>	<u>-</u>
Fair value of plan assets at end of year	<u>\$ 2,297,047</u>	<u>\$ 2,484,926</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 7 - PENSION PLAN (Continued)

Current investment strategies include maintaining low-risk investments. The Center's goal is to maintain approximately 90% of plan assets in fixed income with the remainder of assets as cash and cash equivalents. At June 30th, the plan assets were comprised of a fixed income insurance contract, certificate of deposit and interest bearing cash, as follows:

	2010		2009	
Cash and cash equivalents	\$ 1,055,751	46%	\$ 837,012	34%
Insurance contract	389,687	17%	815,126	33%
Investments	851,609	37%	832,788	33%
Total plan assets	\$ 2,297,047	100%	\$ 2,484,926	100%

A hierarchy 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:

- 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 plan assets measured on a recurring basis at June 30 are as follows:

<u>June 30, 2010</u>	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan assets				
Certificates of Deposit	\$ 851,609	\$ -	\$ 851,609	\$ -
Total investments at fair value	\$ 851,609	\$ -	\$ 851,609	\$ -

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 7 - PENSION PLAN (Continued)

<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>
Plan assets				
Certificates of Deposit	\$ 832,788	\$ -	\$ 832,788	\$ -
Total investments at fair value	<u>\$ 832,788</u>	<u>\$ -</u>	<u>\$ 832,788</u>	<u>\$ -</u>

Total employer contributions estimated to be made during the year ending June 30, 2011 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, 2011	\$ 132,787
Year Ending June 30, 2012	138,955
Year Ending June 30, 2013	378,126
Year Ending June 30, 2014	302,032
Year Ending June 30, 2015	302,115
5 Years Ending June 30, 2020	1,662,899

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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</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	\$ 350,147	\$ 390,927
Day Program - program focusing on the diagnosis and treatment of emotional and behavioral health problems in a day time treatment	156,730	149,021

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 8 - FUNCTIONAL CLASSIFICATION (Continued)

Youth Programs - programs focused on the mental and physical well-being of youth	62,715	416,838
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	877,194	821,536
<u>Service Coordination - case management program designed to provide a single point of contact to ensure patients needs are met</u>	<u>471,321</u>	<u>543,691</u>
Medical Services - program dedicated to enhancing the emotional and behavioral health through professional treatment services	348,057	510,498
Clinical & Rehabilitation - programs directed toward clinical rehabilitation services for eligible individuals	348,621	358,763
Crisis - comprehensive array of programs designed to stabilize the conditions of acute or severe psychiatric symptoms	284,700	291,618
Other programs	<u>188,611</u>	<u>204,503</u>
Total program services	3,088,096	3,687,395
Administrative and general	<u>785,491</u>	<u>906,856</u>
Total expenses	<u>\$ 3,873,587</u>	<u>\$ 4,594,251</u>

NOTE 9 - FAIR VALUE MEASUREMENTS

Professional accounting standards establish 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:

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, 2010 and 2009 are as follows:

<u>June 30, 2010 and 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	\$ 915,000	\$ -	\$ 915,000	\$ -

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, 2010

AWARDING AGENCY	GRANT NAME	GRANT IDENTIFICATION	PERIOD OF AWARD	TOTAL AWARD	RECEIPTS	EXPENSES	UNEXPENDED BALANCE	AMOUNT RECEIVABLE
WVDHHR - BHHF	Community Placement	0525-2010-2870-803-252	07/01/2009 - 06/30/2010	\$ 32,850	\$ 25,620	\$ 30,000	\$ 2,850	\$ 4,380
WVDHHR - BHHF	Core Services & Crisis Improvement	0525-2010-2851-219-252	07/01/2009 - 06/30/2010	225,230	225,230	225,230	-	-
WVDHHR - BHHF	Case Management	0525-2010-2851-219-252	07/01/2009 - 06/30/2010	25,000	20,003	25,000	-	4,997
WVDHHR - BHHF	Disaster Hotline	0525-2010-2851-219-252	07/01/2009 - 06/30/2010	10,000	9,000	10,000	-	1,000
WVDHHR - BHHF	DD Client Core Services	0525-2010-2870-219-252	07/01/2009 - 06/30/2010	71,207	71,207	71,207	-	-
WVDHHR - BHHF	Uncompensated Care	0525-2010-3065-219-252	07/01/2009 - 06/30/2010	558,046	558,046	558,046	-	-
WVDHHR - BHHF	PI Services	0525-2010-2885-219-252	07/01/2009 - 06/30/2010	39,000	33,058	39,000	-	5,942
WVDHHR - BHHF	Support and Alternative Services	0525-2010-3041-219-252	07/01/2009 - 06/30/2010	182,408	182,408	182,408	-	-
WVDHHR - BHHF	Community Supports Improvement	0525-2010-3702-219-252	07/01/2009 - 06/30/2010	152,666	137,353	152,666	-	15,313
TOTAL				<u>\$ 1,296,407</u>	<u>\$ 1,261,925</u>	<u>\$ 1,293,557</u>	<u>\$ 2,850</u>	<u>\$ 31,632</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF EXPENDITURES OF BHHF FEDERAL AWARDS
 BY STATE ACCOUNT NUMBER
 YEAR ENDED JUNE 30, 2010

<u>FEDERAL PROGRAM TITLE</u>	<u>FEDERAL CFDA #</u>	<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
WV Data Infrastructure	11.111	8723-2011-2849-096-128	\$ 7,500
Block Grant for Prevention and Treatment of Substance Abuse	93.959	8793-2010-2885-096-128	56,543
	93.959	8793-2010-2892-096-128	95,543
			<u>\$ 159,586</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF BHHF STATE AWARDS
BY STATE ACCOUNT NUMBER
YEAR ENDED JUNE 30, 2010

<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
0525-2010-2870-803-252	\$ 30,000
0525-2010-2851-219-252	225,230
0525-2010-2851-219-252	25,000
0525-2010-2851-219-252	10,000
0525-2010-2870-219-252	71,207
0525-2010-3065-219-252	558,046
0525-2010-2885-219-252	39,000
0525-2010-3041-219-252	182,408
0525-2010-3702-219-252	152,666
	<u>\$ 1,293,557</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 SCHEDULE OF BHHF FUNDING STATUS FOR PURCHASE
 ORDER #G100000
 YEAR ENDED JUNE 30, 2010

BHHF ACCOUNT NUMBER	FINAL BHHF AWARD	AMOUNT EARNED AND BILLED	AMOUNT NOT EARNED BUT BILLED	AMOUNT EARNED AND NOT BILLED	AMOUNT COLLECTED
0525-2010-2870-803-252	\$ 32,850	\$ 30,000	\$ -	\$ -	\$ 25,620
0525-2010-2851-219-252	225,230	225,230	-	-	225,230
0525-2010-2851-219-252	25,000	25,000	-	-	20,003
0525-2010-2851-219-252	10,000	10,000	-	-	9,000
0525-2010-2870-219-252	71,207	71,207	-	-	71,207
0525-2010-3065-219-252	558,046	558,046	-	-	558,046
0525-2010-2885-219-252	39,000	39,000	-	-	33,058
0525-2010-3041-219-252	182,408	182,408	-	-	182,408
0525-2010-3702-219-252	152,666	152,666	-	-	137,353
8723-2011-2849-096-128	7,500	7,500	-	-	-
8793-2010-2885-096-128	56,543	56,543	-	-	48,365
8793-2010-2892-096-128	95,543	95,543	-	-	95,543
	<u>\$ 1,455,993</u>	<u>\$ 1,453,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,405,833</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding
 Year Ended June 30, 2010

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
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
Pentium 120 Computer monitor, & Cannon BJC 240 Printer	Lothes Computer Services	C=BQ45AP53 M=M3T570310481 P=HHN83751	37924	06/27/97	1,739.46	0525-1997-2923-219-252	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	1FALP10POVW301146	37924	06/29/97	12,332.05	0525-1997-2890-219-252-00952 \$7000 8793-1997-2891-096-252-00952 \$5332	5 years

APPALACHIAN COMMUNITY HEALTH CENTER, INC.
 Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding
 Year Ended June 30, 2010

Description of Item	Vendor Name	Vendor ID #	Provider ID #	Date Acquired	Cost of Item	State Account Number	Estimated Useful Life
Canon DR3020 Desktop scanner	Superior Office	AA301770	37924	08/05/97	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 - Upshur 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	23GXCYWG	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) P11 400 MHz 6.4GB/64MB, 14.1" TFT Display, 56K Modem, Win '98	Premier Computer	AFIFLM7	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 A50 40GB/256MB 17" Lexmark P11, monitor w/ speakers	Premier Computer	C=814822U M=63324HN P=22S0600 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 PI Shelter	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
					\$ 144,970.17		

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, 2010

ASSETS

1. Cash	\$ 244,317
2. Short Term Investments	915,000
3. Accounts Receivable - BHHF	47,310
4. Accounts Receivable - Client	23,065
5. Accounts Receivable - Medicaid	112,611
6. Accounts Receivable - Medicaid MR/DD Waiver	180,511
7. Accounts Receivable - Other	25,430
8. Inventory	2,056
9. Prepaid/Other	72,135
10. TOTAL CURRENT ASSETS (Total of lines 1-9)	1,622,435

NON-CURRENT ASSETS:

FIXED ASSETS

11. Property, Land and Equipment - BHHF	144,970
12. Less Accumulated Depreciation	(127,466)
13. Property, Land and Equipment - Other	2,745,568
14. Less Accumulated Depreciation	(2,463,867)
15. Total Property, Land and Equipment (NET)	299,205

OTHER NON-CURRENT ASSETS

16. Long-Term Investments	-
17. Other	-
18. TOTAL ASSETS (Total of lines 10, 15, 16 and 17)	\$ 1,921,640

LIABILITES

CURRENT LIABILITIES:

19. Accounts Payable	\$ 46,765
20. Taxes Payable	34,288
20a Provider Taxes Payable	(21,643)
21. Line of Credit - Payable	175,000
22. Short-Term Notes Payable	-
23. Accrued Expenses	122,249
24. Other Current Liabilities	193,287
25. TOTAL CURRENT LIABILITES (Total of lines 19 through 24)	549,946

LONG-TERM LIABILITIES:

26. Long-Term Notes Payable	-
27. Other Long-Term Liabilities	584,136
28. TOTAL LIABILITIES (Total of lines 25, 26 and 27)	1,134,082

NET ASSETS

29. Unrestricted Net Assets	787,558
30. Temporarily Restricted Net Assets	-
31. Permanently Restricted Net Assets	-
32. TOTAL LIABILITIES AND NET ASSETS (Total of lines 28 through 31)	\$ 1,921,640

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, 2010

REVENUE AND SUPPORT

1. Charity Care	\$ -
1a. Charity Care - Account 4311.1	89,577
1b. Charity Care - Account 4311.2	157,038
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	(246,615)
1j. Charity Care - Account 4358	(182,408)
<hr/>	
2. Gross Client Service Revenue	2,081,107
3. Contractual Adjustments (Target Funds)	(1,774)
3a. Contractual Adjustments (Non-Target Funds)	(49,187)
4. Bad Debt	-
4a. Bad Debt (BHFF Target Funds)	-
4b. Bad Debt (BHFF Non-Target Funds)	-
5. Net Client Service Revenue	2,030,146
Net Client Service Revenue	
6. Medicaid (Target Funds)	23,244
6a. Medicaid (Non-Target Funds)	723,203
7. Medicaid MR/DD Waiver (Non-Target Funds)	1,026,038
8. ICF/MR (Non-Target Funds)	-
9. Private Pay (Non-Target Funds)	-
9a. Private Pay (BHFF Target Funds)	11,090
9b. Private Pay (BHFF Non-Target Funds)	140,248
10. Other Client Service Revenue (Target Funds)	3,970
10a. Other Client Service Revenue (Non-Target Funds)	102,353
11. Total Net Client Service Revenue	2,030,146
<small>(Line 11 must agree with line 5)</small>	
12. BHFF Support	1,453,143
13. Other/Public Support	92,576
14. Other	24,121
15. TOTAL REVENUE AND SUPPORT	3,599,986
<small>(Total of line 11 through line 14)</small>	

EXPENSES

16. Salaries	2,016,220
17. Fringe Benefits	796,826
18. Contractual Services	269,318
19. Provider Tax	70,342
20. Depreciation Expense	77,795
21. Other Expenses	643,086
22. TOTAL EXPENSES	3,873,587
<small>(Total of line 16 through line 21)</small>	
23. NET INCOME (LOSS)	\$ (273,601)
<small>(Line 15 minus line 22)</small>	



CERTIFIED PUBLIC ACCOUNTANTS

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, 2010, and have issued our report thereon dated November 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 2010-1, 2010-2. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

We noted certain matters that we reported to management of the Center in a separate letter dated November 10, 2010.

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.

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 10, 2010

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

2010-01 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 cash, accrued salaries and wages, accrued payroll taxes, accrued annual leave, accounts receivable, accounts payable, and net assets.

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: *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 with an emphasis on the year end reconciliations.*

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

2010-02 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, 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 been updated for current year activity; however, it has not been reconciled to the results of the physical inventory.

Effect: Depreciation expense is not always recorded accurately 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 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: *Management will reconcile the physical inventory to the fixed asset listing, and will make the year end adjustment to depreciation and accumulated depreciation based on the actual calculation for the year.*