

**APPALACHIAN COMMUNITY  
HEALTH CENTER, INC.**

**FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**DHHR - Finance**

**DEC - 8 2011**

**Date Received**

## CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3 - 4
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 18
ADDITIONAL INFORMATION	
Schedule of State Grant Awards	19
Schedule of Expenditures of BHHF Federal Awards by State Account Number	20
Schedule of Expenditures of BHHF State Awards by State Account Number	21
Schedule of BHHF Funding Status for Purchase Orders #G110000 & G110593	22
Cumulative Schedule of Property and Equipment Purchased With BHHF Administered Funding	23 - 24
BHHF Standardized Financial Statements - Balance Sheet for Comprehensive and MR/DD Facilities	25
BHHF Standardized Financial Statements - Income Statement for Comprehensive and MR/DD Facilities	26
REPORTS REQUIRED BY FEDERAL OR STATE REGULATION	
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 <i>Government Auditing Standards</i>	27 - 28
Schedule of Findings and Responses	29



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, 2011 and 2010, 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 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, 2011 and 2010, 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 14, 2011 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.

The Virginia Center - 1411 Virginia Street, East - Suite 100 - Charleston, WV 25301

Phone (304)-343-4126 or 1-(800)-788-3844 - Fax (304)-343-8008

Towne Square - 201 Third Street - PO Box 149 - Parkersburg, WV 26102

Phone (304)-485-6584 - Fax (304)-485-0971

www.suttlecpas.com - E-mail: cpa@suttlecpas.com

A Professional Limited Liability Company

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Center taken as a whole. The accompanying Schedule of State Grant Awards, Schedule of Expenditures of BHHF Federal Awards by State Account Number, Schedule of Expenditures of BHHF State Awards by State Account Number, Schedule of BHHF Funding Status for Purchase Orders #G110000 and G110593, 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 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 June 30, 2011 basic 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 June 30, 2011 basic financial statements as a whole.

*Seattle & Stalnak, PLLC*

Charleston, West Virginia

November 14, 2011

DHHR - Finance

DEC - 8 2011

Date Received

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 135,985	\$ 244,317
Investments	915,000	915,000
Patient receivables, less allowance for doubtful accounts and contractual adjustments: \$35,000 and \$25,000, respectively	347,268	323,615
Contract services receivable	111,575	50,234
Prepaid expenses and deposits	73,055	72,134
Other current assets	7,692	17,135
Total current assets	1,590,575	1,622,435
<b>Property and equipment</b>		
Land	114,276	114,276
Building	1,074,640	1,074,640
Equipment	1,263,084	1,259,268
Vehicles	405,207	442,354
	2,857,207	2,890,538
Less accumulated depreciation	2,619,827	2,591,333
Total property and equipment	237,380	299,205
	\$ 1,827,955	\$ 1,921,640
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 275,645	\$ 265,349
Line of Credit	-	175,000
Accrued annual leave	106,507	109,597
Total current liabilities	382,152	549,946
Liability for pension benefits	737,907	584,136
Net assets - unrestricted	707,896	787,558
	\$ 1,827,955	\$ 1,921,640

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 STATEMENTS OF ACTIVITIES  
 YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Revenue and support		
Net patient service revenue	\$ 1,918,374	\$ 2,030,146
Support from West Virginia Bureau for Behavioral Health and Health Facilities	1,644,406	1,453,143
Support from other government programs	79,578	89,723
Other	87,774	26,974
Total revenue and support	3,730,132	3,599,986
Expenses		
Salaries and wages	1,952,200	2,016,220
Employee benefits	667,137	796,826
Contractual and professional	300,031	269,318
Travel	92,305	94,423
Telephone	62,611	67,295
Rent and utilities	126,287	124,456
Depreciation	65,641	77,795
Repairs, maintenance and small equipment	71,895	69,055
Insurance	114,952	120,461
Health care provider tax	78,655	70,342
Other	211,033	167,396
Total expenses	3,742,747	3,873,587
Change in unrestricted net assets before effect of pension-related changes other than net periodic pension cost.	(12,615)	(273,601)
Pension-related changes other than net periodic pension cost	(67,047)	104,728
CHANGE IN UNRESTRICTED NET ASSETS	(79,662)	(168,873)
Net assets - unrestricted, beginning of year	787,558	956,431
Net assets - unrestricted, end of year	\$ 707,896	\$ 787,558

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (79,662)	\$ (168,873)
Adjustments		
Depreciation	65,641	77,795
Decrease (increase) in operating assets		
Patient receivables	(23,653)	80,192
Contract services receivable	(61,341)	60,366
Prepaid expenses and deposits	(921)	3,687
Other current assets	9,443	6,018
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	10,296	17,016
Accrued annual leave	(3,090)	(10,487)
Accrued pension costs	153,771	(3,055)
Net cash provided (used) in operating activities	<u>70,484</u>	<u>62,659</u>
Cash flows from investing activities		
Cash purchases of property and equipment	<u>(3,816)</u>	<u>(2,173)</u>
Net cash provided (used) in investing activities	<u>(3,816)</u>	<u>(2,173)</u>
Cash flows from financing activities		
Proceeds from (Payments on) line of credit	<u>(175,000)</u>	<u>175,000</u>
Net cash provided (used) in financing activities	<u>(175,000)</u>	<u>175,000</u>
Net increase (decrease) in cash and cash equivalents	(108,332)	235,486
Cash and cash equivalents, beginning of year	<u>244,317</u>	<u>8,831</u>
Cash and cash equivalents, end of year	<u>\$ 135,985</u>	<u>\$ 244,317</u>
Supplemental disclosures of cash flow information		
Cash payments for interest	<u>\$ 6,211</u>	<u>\$ 5,414</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010

8

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 25% of expenses are incurred for management and general purposes and 75% 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.

**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.



APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010

9

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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 \$6,470 at June 30, 2011.

**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.

The Center has adopted ASC Topic 740-10, Accounting for Uncertainty in Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2011, the Center has no material uncertain tax positions to be accounted for in the financial statements under the new rules. The Center recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. As of June 30, 2011 tax years ending on or after June 30, 2008 remain subject to examination.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010

10

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 \$35,000 and \$25,000 for the years ended June 30, 2011 and 2010, 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 14, 2011, 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. Interest-bearing 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, 2011, total bank balances exceeded federal deposit insurance and collateral by approximately \$600.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

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>2011</u>	<u>2010</u>
Medicaid	35%	33%
Medicaid waiver	57%	53%
Patients	4%	7%
Other third-party payers	<u>4%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

NOTE 4 - NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2011, the Center had a line of credit with a local bank totaling \$750,000. No amount was outstanding under this line of credit at June 30, 2011.

Interest expense incurred by the Center for the years ended June 30, 2011 and 2010 was \$6,211 and \$5,414, 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>2011</u>	<u>2010</u>
West Virginia Department of Health and Human Resources		
Bureau for Behavioral Health and Health Facilities	\$ 1,644,406	\$ 1,453,143
Medicaid	594,078	734,706
Medicaid Waiver	1,085,455	1,009,050
Other	<u>406,193</u>	<u>403,087</u>
	<u>\$ 3,730,132</u>	<u>\$ 3,599,986</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, 2011 AND 2010

12

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:

2012	\$ 27,900
2013	27,900
2014	27,900
2015	<u>11,625</u>
Total minimum rental commitments	<u>\$ 95,325</u>

Total rent expense for the years ended June 30, 2011 and 2010 was \$52,598 and \$55,893, 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, 2011 and 2010 was \$205,364 and \$305,673, 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.

As of September 1, 2010, any Employee hired on or after September 1, 2010 shall not be eligible to participate in the plan. In addition, any former Employee who was a Participant in the Plan shall not be eligible to participate in the Plan if they are rehired on or after September 1, 2010.

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 - PENSION PLAN (Continued)

Components of pension expense for the years ended June 30, 2011 and 2010 include the following:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 117,505	\$ 115,311
Interest cost	165,300	169,939
Expected return on plan assets	(77,752)	(76,272)
Amortization of prior service cost	(20,245)	(36,291)
Recognized net actuarial loss	20,556	29,035
Settlement loss	-	103,951
Total pension expense	<u>\$ 205,364</u>	<u>\$ 305,673</u>

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.75%	5.75%
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	2.39%	2.61%
Russel1 2000	4.00%	6.47%
MSCI EAFE	0.95%	5.60%
BarCap Aggregate Bond	6.57%	5.61%
BarCap Municipal	4.90%	4.94%

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, 2011 AND 2010

NOTE 7 - PENSION PLAN (Continued)

The funding status of the plan as of June 30, 2011 and 2010 are summarized below.

	<u>2011</u>	<u>2010</u>
Net amount recognized at year-end		
Projected benefit obligation	\$ 2,922,073	\$ 2,881,183
Fair value of plan assets	<u>2,184,166</u>	<u>2,297,047</u>
Liability for pension benefits	<u>\$ 737,907</u>	<u>\$ 584,136</u>
Items not yet recognized as a component of the net periodic pension cost		
Unrecognized prior service cost	\$ -	\$ (20,245)
Unrecognized actuarial (gain)/loss	<u>742,831</u>	<u>695,669</u>
Effect of adoption of FASB 158	<u>\$ 742,831</u>	<u>\$ 675,424</u>

The following summarizes the change in the projected benefit obligations for the years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Benefit obligation at beginning of year	\$ 2,881,183	\$ 3,072,117
Service cost	117,505	115,311
Interest cost	165,300	169,939
Settlement loss	-	28,994
Benefits paid	(256,768)	-
Settlement payments	-	(430,647)
Actuarial (gain) or loss	<u>14,853</u>	<u>(74,531)</u>
Benefit obligation at end of year	<u>\$ 2,922,073</u>	<u>\$ 2,881,183</u>

The following summarizes the changes in plan assets at fair value for the years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Fair value of plan assets at beginning of year	\$ 2,297,047	\$ 2,484,926
Actual return on plan assets	24,887	38,768
Employer contributions	119,000	204,000
Benefits paid	(256,768)	-
Settlement payments	-	(430,647)
Fair value of plan assets at end of year	<u>\$ 2,184,166</u>	<u>\$ 2,297,047</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

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 30<sup>th</sup>, the plan assets were comprised of a fixed income insurance contract, certificate of deposit and interest bearing cash, as follows:

	<u>2011</u>		<u>2010</u>	
Cash and cash equivalents	\$ 179,334	8%	\$ 1,055,751	46%
Insurance contract	1,141,409	52%	389,687	17%
Investments	<u>863,423</u>	<u>40%</u>	<u>851,609</u>	<u>37%</u>
Total plan assets	<u>\$ 2,184,166</u>	<u>100%</u>	<u>\$ 2,297,047</u>	<u>100%</u>

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.

Plan assets measured at fair value on a recurring basis at June 30 are as follows:

<u>June 30, 2011</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	\$ 863,423	\$ -	\$ 863,423	\$ -
Total investments at fair value	<u>\$ 863,423</u>	<u>\$ -</u>	<u>\$ 863,423</u>	<u>\$ -</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 - PENSION PLAN (Continued)

<u>June 30, 2010</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	\$ 851,609	\$ -	\$ 851,609	\$ -
Total investments at fair value	<u>\$ 851,609</u>	<u>\$ -</u>	<u>\$ 851,609</u>	<u>\$ -</u>

Total employer contributions estimated to be made during the year ending June 30, 2012 are \$59,500.

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

Year Ending June 30, 2012	\$ 18,147
Year Ending June 30, 2013	47,934
Year Ending June 30, 2014	71,224
Year Ending June 30, 2015	96,759
Year Ending June 30, 2016	111,456
5 Years Ending June 30, 2021	982,831

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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</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	\$ 299,579	\$ 350,147
Day Program - program focusing on the diagnosis and treatment of emotional and behavioral health problems in a day time treatment	150,547	156,730



APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 8 - FUNCTIONAL CLASSIFICATION (Continued)

Youth Programs - programs focused on the mental and physical well-being of youth	72,677	62,715
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	896,831	877,194
Service Coordination - case management program designed to provide a single point of contact to ensure patients needs are met	350,304	471,321
Medical Services - program dedicated to enhancing the emotional and behavioral health through professional treatment services	361,524	348,057
Clinical & Rehabilitation - programs directed toward clinical rehabilitation services for eligible individuals	351,291	348,621
Crisis - comprehensive array of programs designed to stabilize the conditions of acute or severe psychiatric symptoms	293,835	284,700
Other programs	<u>214,807</u>	<u>188,611</u>
Total program services	2,991,395	3,088,096
Administrative and general	<u>751,352</u>	<u>785,491</u>
Total expenses	<u>\$ 3,742,747</u>	<u>\$ 3,873,587</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:

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2011 AND 2010

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, 2011 and 2010 are as follows:

<u>June 30, 2011 and 2010</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>
<b>Assets</b>				
Certificates of Deposit	\$ 915,000	\$ -	\$ 915,000	\$ -
Total investments at fair value	<u>\$ 915,000</u>	<u>\$ -</u>	<u>\$ 915,000</u>	<u>\$ -</u>

NOTE 10 - CONTINGENCIES

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

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

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 SCHEDULE OF STATE GRANT AWARDS  
 YEAR ENDED JUNE 30, 2011

AWARDING AGENCY	GRANT NAME	GRANT IDENTIFICATION	PERIOD OF AWARD	TOTAL AWARD	RECEIPTS	EXPENSES	UNEXPENDED BALANCE	AMOUNT RECEIVABLE
WVDHHR - BHHF	Care Coordinators Improvement	0525-2011-3701-219-252	07/01/2010 - 06/30/2011	\$ 62,858	\$ 45,882	\$ 62,858	\$ -	\$ 16,976
WVDHHR - BHHF	Community Supports Improvement	0525-2011-3702-219-252	07/01/2010 - 06/30/2011	152,666	116,914	152,666	-	35,752
WVDHHR - BHHF	Client Core Services /Case Management	0525-2011-2851-219-252	07/01/2010 - 06/30/2011	250,230	245,864	250,230	-	4,366
WVDHHR - BHHF	Disaster Hotline	0525-2011-2851-219-252	07/01/2010 - 06/30/2011	10,000	10,000	10,000	-	-
WVDHHR - BHHF	Client Core Services	0525-2011-2870-219-252	07/01/2010 - 06/30/2011	71,207	71,207	71,207	-	-
WVDHHR - BHHF	PI Services	0525-2011-2885-219-252	07/01/2010 - 06/30/2011	39,000	31,263	39,000	-	7,737
WVDHHR - BHHF	Support/Alternative Services	0525-2011-3041-219-252	07/01/2010 - 06/30/2011	182,408	182,408	182,408	-	-
WVDHHR - BHHF	Uncompensated Care	0525-2011-3065-219-252	07/01/2010 - 06/30/2011	58,834	58,834	58,834	-	-
WVDHHR - BHHF	Uncompensated Care	0525-2010-3065-219-252	07/01/2010 - 06/30/2011	58,834	58,834	58,834	-	-
WVDHHR - BHHF	CAC Comm Placement	0525-2011-2874-803-252	07/01/2010 - 06/30/2011	32,850	30,150	32,850	-	2,700
TOTAL				\$ 1,418,099	\$ 1,350,568	\$ 1,418,099	\$ -	\$ 67,531

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 SCHEDULE OF EXPENDITURES OF BHHF FEDERAL AWARDS  
 BY STATE ACCOUNT NUMBER  
 YEAR ENDED JUNE 30, 2011

<u>FEDERAL PROGRAM TITLE</u>	<u>FEDERAL CFDA #</u>	<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
Block Grant for Prevention and Treatment of Substance Abuse	93.959	8793-2011-2892-096-128	\$ 95,543
	93.959	8793-2011-2885-096-128	56,543
National Bioterrorism Hospital Preparedness Program	93.889	8802-2011-0506-096-128	74,221
			<u>\$ 226,307</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
SCHEDULE OF EXPENDITURES OF BHHF STATE AWARDS  
BY STATE ACCOUNT NUMBER  
YEAR ENDED JUNE 30, 2011

<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
0525-2011-3701-219-252	\$ 62,858
0525-2011-3702-219-252	152,666
0525-2011-2851-219-252	250,230
0525-2011-2851-219-252	10,000
0525-2011-2870-219-252	71,207
0525-2011-2885-219-252	39,000
0525-2011-3041-219-252	182,408
0525-2011-3065-219-252	558,046
0525-2010-3065-219-252	58,834
0525-2011-2874-803-252	32,850
	<u>\$ 1,418,099</u>

APPALACHIAN COMMUNITY HEALTH CENTER, INC.  
 SCHEDULE OF BHHF FUNDING STATUS FOR PURCHASE  
 ORDERS #G110000 AND G110593  
 YEAR ENDED JUNE 30, 2011

BHHF ACCOUNT NUMBER	FINAL BHHF AWARD	AMOUNT EARNED AND BILLED	AMOUNT NOT EARNED BUT BILLED	AMOUNT EARNED AND NOT BILLED	AMOUNT COLLECTED
0525-2011-3701-219-252	\$ 62,858	\$ 62,858	\$ -	\$ -	\$ 45,882
0525-2011-3702-219-252	152,666	152,666	-	-	116,914
0525-2011-2851-219-252	250,230	250,230	-	-	245,864
0525-2011-2851-219-252	10,000	10,000	-	-	10,000
0525-2011-2870-219-252	71,207	71,207	-	-	71,207
0525-2011-2885-219-252	39,000	39,000	-	-	31,263
0525-2011-3041-219-252	182,408	182,408	-	-	182,408
0525-2011-3065-219-252	558,046	558,046	-	-	558,046
0525-2010-3065-219-252	58,834	58,834	-	-	58,834
0525-2011-2874-803-252	32,850	32,850	-	-	30,150
8793-2011-2892-096-128	95,543	95,543	-	-	76,468
8723-2011-2885-096-128	56,543	56,543	-	-	41,587
8802-2011-0506-096-128	74,221	74,221	-	-	67,251
	<u>\$ 1,644,406</u>	<u>\$ 1,644,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,535,874</u>

**APPALACHIAN COMMUNITY HEALTH CENTER, INC.**  
 Cumulative Schedule of Property and Equipment Purchased with BHEP Administered Funding  
 Year Ended June 30, 2011

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/ W/Inwriter 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	4DEUS1210TS0016321	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
Penium 120 Computer monitor, & Cannon BIC 240 Printer	Lothes Computer Services	C=BG45AP53 M=MFTS70310481 P=BHN83751	37924	06/27/97	1,759.46	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, 2011

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., Heator, Inc. of Elkins	C-U573110637 M=HEW-D2818A	37924	09/16/97	2,749.38	8793-1997-2891-096-252-0952	5 years
IBM PC - Randolph Co.	Premier Computer	23GXYCR	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	23GXYWG	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-21XZTMP	37924	06/23/99	1,175.16	8793-1999-2886-096-252-03087	5 years
ASI Treatment Tracking Upgrade	QuickStart Systems		37924	06/22/99	2,418.00	8793-1999-2892-096-252-03087	4 years
ASI Treatment Tracking Upgrade	QuickStart Systems		37924	06/22/99	2,418.00	8793-1999-2890-096-252-03087	4 years
IBM ThinkPad 390X (2626-HOU) PII 400 MHz, 6.4GB/64MB, 14.1" TFT Display, 56K Modem, Win '98	Premier Computer	AHFLM7	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 348.14 0525-2000-2884-219-252 1,044.39	5 years
IBM Thinkcentre A50 40GB/256MB 17" Lozenark P4, monitor w/ speakers	Premier Computer	C=814822U M=63224HN 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=28863TU 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, 2011

**ASSETS**

1. Cash	\$ 135,985
2. Short Term Investments	915,000
3. Accounts Receivable - BHHF	108,532
4. Accounts Receivable - Client	15,357
5. Accounts Receivable - Medicaid	122,267
6. Accounts Receivable - Medicaid MR/DD Waiver	198,913
7. Accounts Receivable - Other	20,792
8. Inventory	674
9. Prepaid/Other	73,055
10. <b>TOTAL CURRENT ASSETS</b> (Total of lines 1-9)	<b>1,590,575</b>

**NON-CURRENT ASSETS:**

**FIXED ASSETS**

11. Property, Land and Equipment - BHHF	144,970
12. Less Accumulated Depreciation	(138,500)
13. Property, Land and Equipment - Other	2,712,237
14. Less Accumulated Depreciation	(2,481,327)
15. <b>Total Property, Land and Equipment (NET)</b>	<b>237,380</b>

**OTHER NON-CURRENT ASSETS**

16. Long-Term Investments	-
17. Other	-
18. <b>TOTAL ASSETS</b> (Total of lines 10, 15, 16 and 17)	<b>\$ 1,827,955</b>

**LIABILITIES**

**CURRENT LIABILITIES:**

19. Accounts Payable	\$ 46,553
20. Taxes Payable	20,647
20a Provider Taxes Payable	13,114
21. Line of Credit - Payable	-
22. Short-Term Notes Payable	-
23. Accrued Expenses	119,159
24. Other Current Liabilities	182,679
25. <b>TOTAL CURRENT LIABILITIES</b> (Total of lines 19 through 24)	<b>382,152</b>

**LONG-TERM LIABILITIES:**

26. Long-Term Notes Payable	-
27. Other Long-Term Liabilities	737,907
28. <b>TOTAL LIABILITIES</b> (Total of lines 25, 26 and 27)	<b>1,120,059</b>

**NET ASSETS**

29. Unrestricted Net Assets	707,896
30. Temporarily Restricted Net Assets	-
31. Permanently Restricted Net Assets	-
32. <b>TOTAL LIABILITIES AND NET ASSETS</b> (Total of lines 28 through 31)	<b>\$ 1,827,955</b>

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, 2011

**REVENUE AND SUPPORT**

1.	Charity Care	\$ -
1a.	Charity Care - Account 4311.1	65,257
1b.	Charity Care - Account 4311.2	131,660
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	(196,917)
1j.	Charity Care - Account 4358	(182,408)
2.	Gross Client Service Revenue	2,021,112
3.	Contractual Adjustments (Target Funds)	(2,227)
3a.	Contractual Adjustments (Non-Target Funds)	(100,511)
4.	Bad Debt	-
4a.	Bad Debt (BHHF Target Funds)	-
4b.	Bad Debt (BHHF Non-Target Funds)	-
5.	Net Client Service Revenue	1,918,374
	Net Client Service Revenue	
6.	Medicaid (Target Funds)	35,540
6a.	Medicaid (Non-Target Funds)	555,617
7.	Medicaid MR/DD Waiver (Non-Target Funds)	1,100,151
8.	ICF/MR (Non-Target Funds)	-
9.	Private Pay (Non-Target Funds)	-
9a.	Private Pay (BHHF Target Funds)	8,926
9b.	Private Pay (BHHF Non-Target Funds)	44,332
10.	Other Client Service Revenue (Target Funds)	9,360
10a.	Other Client Service Revenue (Non-Target Funds)	164,448
11.	Total Net Client Service Revenue	1,918,374
	<small>(Line 11 must agree with line 5)</small>	
12.	BHHF Support	1,644,406
13.	Other/Public Support	79,578
14.	Other	87,774
15.	<b>TOTAL REVENUE AND SUPPORT</b>	<b>3,730,132</b>
	<small>(Total of line 11 through line 14)</small>	
	<b>EXPENSES</b>	
16.	Salaries	1,952,200
17.	Fringe Benefits	667,137
18.	Contractual Services	295,882
19.	Provider Tax	78,655
20.	Depreciation Expense	65,641
21.	Other Expenses	683,232
22.	<b>TOTAL EXPENSES</b>	<b>3,742,747</b>
	<small>(Total of line 16 through line 21)</small>	
23.	<b>NET INCOME (LOSS)</b>	<b>\$ (12,615)</b>
	<small>(Line 15 minus line 22)</small>	



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

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

We have audited the financial statements of Appalachian Community Health Center, Inc. (the Center) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 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 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.

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: 2011-1. 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 14, 2011.

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 14, 2011

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

**2011-01**                      **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, accounts receivable, fixed assets, and accounts payable.

**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.*