Pressley Ridge
Financial Statements
June 30, 2008 and 2007

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Independent Auditor's Report

To the Board of Directors
Pressley Ridge

We have audited the accompanying statements of financial position of Pressley Ridge (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of Pressley Ridge'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Pressley Ridge as of June 30, 2008 and 2007, 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 12, 2008, on our consideration of Pressley Ridge'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.

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
November 12, 2008

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Pressley Ridge
Statements of Financial Position
June 30, 2008 and 2007

ASSETS

	2008	2007
Current Assets		
Cash and cash equivalents	$ 129,525	$ 91,191
Accounts receivable, net of reserves for uncollectible amounts of $1,117,000 and $1,458,000, respectively	7,381,570	8,494,226
Accounts receivable - affiliated party, *Note 14*	117,640	461,059
Prepaid expenses	584,440	733,671
Total Current Assets	8,213,175	9,780,147
Property, Plant and Equipment, at Cost, *Note 2*		
Land	432,815	845,578
Land improvements	1,197,766	1,114,534
Buildings and leasehold improvements	15,473,461	16,748,154
Furniture and equipment	3,847,281	4,114,453
Computer equipment and software	6,947,189	7,498,528
	27,898,512	30,321,247
Less accumulated depreciation	13,411,094	14,684,467
Net Property, Plant and Equipment	14,487,418	15,636,780
Other Assets		
Assets held for sale, *Note 7*	868,067	-
Construction in progress and assets not yet in service	102,486	93,782
Notes receivable - affiliated party, *Note 14*	1,449,235	1,449,235
Advances - affiliated party, *Note 14*	-	137,204
Long-term accounts receivable, *Note 2*	-	486,985
Beneficial interest in perpetual trusts, *Note 4*	306,427	342,868
Miscellaneous	476,782	253,291
Total Other Assets	3,202,997	2,763,365
Total Assets	$ 25,903,590	$ 28,180,292

The accompanying notes are an integral part of these financial statements

Pressley Ridge
Statements of Financial Position
June 30, 2008 and 2007

LIABILITIES

	2008	2007
Current Liabilities		
Current portion of long-term debt, *Note 6*	$ 1,168,052	$ 1,130,279
Line of credit, *Note 5*	6,847,000	6,688,000
Accounts payable	2,039,909	2,440,753
Accrued payroll and payroll taxes	654,326	608,937
Compensated absences, *Note 2*	399,230	376,992
Self-funded health insurance, *Note 8*	346,850	587,162
Deferred revenue and other liabilities	178,287	449,338
Total Current Liabilities	11,633,654	12,281,461
Long-Term Liabilities		
Long-term debt, net of current portion, *Note 6*	7,318,619	8,476,446
Total Liabilities	18,952,273	20,757,907

NET ASSETS

	2008	2007
Net Assets		
Unrestricted	5,514,484	5,944,149
Temporarily restricted, *Note 9*	1,130,406	1,135,368
Permanently restricted, *Note 10*	306,427	342,868
Total Net Assets	6,951,317	7,422,385
Total Liabilities and Net Assets	$ 25,903,590	$ 28,180,292

The accompanying notes are an integral part of these financial statements

Pressley Ridge
Statement of Activities
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Program revenues	$ 60,763,791	$ -	$ -	$ 60,763,791
Investment income	96,874	928	-	97,802
Contributions and grants	1,302,343	53,000	-	1,355,343
Gain (loss) on investments	-	-	(36,441)	(36,441)
	62,163,008	53,928	(36,441)	62,180,495
Net assets released from restrictions	58,890	(58,890)	-	-
Total Support and Revenue	62,221,898	(4,962)	(36,441)	62,180,495
Expenses				
Program services				
Alternative family care and community and family support	24,681,649	-	-	24,681,649
Educational services	8,558,306	-	-	8,558,306
Residential services	17,923,712	-	-	17,923,712
Special projects and other	1,224,027	-	-	1,224,027
Total Program Services	52,387,694	-	-	52,387,694
General and administrative	10,263,869	-	-	10,263,869
Fund raising, *Note 14*	-	-	-	-
Total Expenses	62,651,563	-	-	62,651,563
Change in Net Assets	(429,665)	(4,962)	(36,441)	(471,068)
Net Assets at Beginning of Year	5,944,149	1,135,368	342,868	7,422,385
Net Assets at End of Year	$ 5,514,484	$ 1,130,406	$ 306,427	$ 6,951,317

The accompanying notes are an integral part of these financial statements

Pressley Ridge
Statement of Activities
For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Program revenues	$ 59,077,143	$ -	$ -	$ 59,077,143
Investment income	65,361	1,049	-	66,410
Contributions and grants	1,138,173	-	-	1,138,173
Gain (loss) on investments	-	-	36,696	36,696
	60,280,677	1,049	36,696	60,318,422
Net assets released from restrictions	48,040	(48,040)	-	-
Total Support and Revenue	60,328,717	(46,991)	36,696	60,318,422
Expenses				
Program services				
Alternative family care and community and family support	22,544,528	-	-	22,544,528
Educational services	7,564,103	-	-	7,564,103
Residential services	19,167,528	-	-	19,167,528
Special projects and other	1,011,937	-	-	1,011,937
Total Program Services	50,288,096	-	-	50,288,096
General and administrative	10,609,014	-	-	10,609,014
Fund raising, *Note 14*	-	-	-	-
Total Expenses	60,897,110	-	-	60,897,110
Change in Net Assets	(568,393)	(46,991)	36,696	(578,688)
Net Assets at Beginning of Year	6,512,542	1,182,359	306,172	8,001,073
Net Assets at End of Year	$ 5,944,149	$ 1,135,368	$ 342,868	$ 7,422,385

The accompanying notes are an integral part of these financial statements

Pressley Ridge
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ (471,068)	$ (578,688)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on investments	36,441	(36,696)
Loss on disposition of assets	32,695	102,245
Depreciation and amortization expense	1,899,010	1,857,762
Provisions for doubtful accounts	(341,000)	251,000
(Increase) decrease in:		
Accounts receivable	2,421,264	(195,849)
Prepaid expenses and other assets	(137,149)	(283,791)
Increase (decrease) in:		
Accounts payable	(400,844)	621,768
Accrued payroll and payroll taxes	45,389	36,577
Compensated absences	22,238	(167,312)
Self-funded health insurance	(240,312)	(209,561)
Deferred revenue and other liabilities	(271,051)	(95,360)
Net Cash Provided by (Used in) Operating Activities	2,595,613	1,302,095
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(1,642,518)	(2,112,936)
Proceeds from sale of property and equipment	100	3,034
Principal payments from mortgage receivable	46,193	37,942
Net Cash Provided by (Used in) Investing Activities	(1,596,225)	(2,071,960)

(Continued)

The accompanying notes are an integral part of these financial statements

Pressley Ridge
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

(Continued)

	2008	2007
Cash Flows From Financing Activities		
Net proceeds from (payments on) short-term debt	159,000	1,639,000
Proceeds from long-term debt	-	165,556
Principal payments on long-term debt	(1,120,054)	(1,125,045)
Net Cash Provided by (Used in) Financing Activities	(961,054)	679,511
Net Increase (Decrease) in Cash	38,334	(90,354)
Cash and Cash Equivalents, Beginning of Year	91,191	181,545
Cash and Cash Equivalents, End of Year	$ 129,525	$ 91,191

Supplemental Disclosures

Accounting Policies

For the purposes of these statements, unrestricted cash and cash equivalents include cash on hand, demand deposits at banks and highly liquid investments with a maturity of three months or less when purchased.

Interest Paid

Interest paid was $870,622 in 2008 and $997,306 in 2007.

Income Taxes Paid

The Internal Revenue Service has determined that Pressley Ridge is an educational organization as described in Internal Revenue Code Section 501(c)(3). As such, the Organization is exempt from federal and state income taxes.

The accompanying notes are an integral part of these financial statements

1. *Organization and Operations*

Pressley Ridge (the Organization) is a nonprofit organization that provides treatment and education to troubled and troubling children and families. The spectrum of programs encompasses special education, psychological and psychiatric services, therapeutic treatment in school classrooms, residential facilities, foster family homes and biological family homes.

The accompanying financial statements include only the accounts of Pressley Ridge. As described in Note 14, Pressley Ridge Foundation (the Foundation) is an affiliated party of the Organization.

The Organization provides an array of services to troubled and developmentally challenged children and their families in Pennsylvania, West Virginia, Maryland, Ohio, Delaware, Virginia, Kentucky, Texas and Washington, D.C. Internationally the Organization's programs serve children and families in Hungary and Portugal. The services provided are grouped into the following categories:

Alternative Family Care (All States)

A continuum of foster family based assessment, treatment and permanency planning services for children with serious emotional, behavioral and mental health problems in need of out of home care. These services include emergency shelters for crisis stabilization and assessment, individualized residential treatment, therapeutic foster care, medical foster care, and adoption services along with reunification and birth family support services, and therapeutic groups for both children and birth families.

Educational Services (Pennsylvania, West Virginia)

Provides relatively short-term educational and therapeutic services that will allow children to successfully adjust to and effectively function in their home, school, and community environments. In addition, it offers year-round classroom instruction for seriously emotionally and behaviorally troubled deaf children and adolescents. Includes providing intensive early behavioral interventions to young children with autism/pervasive developmental disorder, and related disorders.

Residential Services (Pennsylvania, West Virginia)

Provides a variety of residential services to children and youth with wide-ranging needs. Facilities include single homes serving two children, campus-based programs and a wilderness program. Programs provide individualized treatment as an alternative to institutional placement or psychiatric hospitalization.

1. ***Organization and Operations (Continued)***

Community and Family Support (All States)

The programs are designed to meet the distinct needs of families and their children to enable them to remain together. It includes a wide range of interventions in which families learn to manage everyday problems and acquire the skills they need to maintain the integrity of their family.

Funding for the various programs is provided by federal, state and county governmental agencies, managed care providers, third party insurers, grants from private foundations and, to a limited degree, the parents of the children served. There are two basic methods of funding; reimbursement of allowable costs incurred and fee-for-services rendered at contracted rates. The contracted rates and any maximum reimbursement amounts are negotiated as part of the annual contract renewals with the various funding agencies.

2. ***Significant Accounting Policies***

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recognized based upon number of days of approved residential and educational services, meals served or other billable units of service provided. Revenue received for services that have not been provided is considered deferred revenue. Expenses and losses are recognized when incurred.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction, except contributions whose restrictions are met in the same fiscal year, which are reported as unrestricted contributions. Contributions of long-lived assets or other assets restricted for acquiring long-lived assets are recorded as temporarily restricted contributions that expire over the useful lives of the related assets. Expiring donor restrictions result in temporarily restricted net assets being reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Advertising Costs

Advertising costs, including advertising costs associated with recruitment are generally charged to operations in the year incurred. The expense for the years ended June 30, 2008 and 2007 was $141,739 and $161,272, respectively.

2. ***Significant Accounting Policies (Continued)***

Provided Facilities

The Organization operates its Laurel Park residential program and conducts its administrative functions for West Virginia at facilities located in Clarksburg, West Virginia. An unrelated third party owns the facility. The third party charges rent only on the most recently constructed facilities, which consists of two (2) ten bed residential facilities. The fair value of rent for the other facilities provided to the Organization during 2008 and 2007 was included in the Statement of Activities at an estimated value of $100,000. Although considered unlikely, the unrelated third party could withhold the use of the facilities from the Organization. This would jeopardize the Organization's residential program operated at this facility, which provided revenue of $2,895,651 and $2,856,851 for the years ended June 30, 2008 and 2007, respectively.

Receivables and Reserve for Uncollectible Amounts

Accounts receivables are uncollateralized obligations generally requiring payment within 30 to 90 days from the invoice date. The Organization reports its accounts receivable net of reserves for anticipated uncollectible amounts. The reserves are management's estimate of amounts that are unlikely to be collected based upon historical results and current experience with the various funding sources. Reserves also include discounts to adjust long-term balances to the net present value. Receivable balances outstanding after management has used reasonable collection efforts are written-off through a charge against the reserve accounts. Amounts not expected to be collected within one year are valued at net present value and are classified as long-term.

Property, Plant and Equipment

Purchased fixed assets are capitalized at cost. Depreciation is reflected in the accompanying financial statements based upon the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives of the major classes of assets are as follows:

Land Improvements	5 - 10 years
Buildings and Leasehold Improvements	5 - 40 years
Furniture and Equipment	5 - 20 years
Computer Equipment and Software	3 - 5 years

Major improvements and replacements of property are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. Depreciation expense was $1,882,314 and $1,841,066 for the years ended June 30, 2008 and 2007, respectively.

2. ***Significant Accounting Policies (Continued)***

Property, Plant and Equipment (Continued)

Fixed assets acquired with grantor funds are capitalized and then depreciated in the same period(s) that the grantor funds are recorded as income. The value of property, plant and equipment acquired with grantor funds that specify that the title remains with or may revert back to the grantor are fully reserved. The cost of such assets utilized by the Organization at June 30, 2008 and 2007 was as follows:

	2008	2007
Buildings and Improvements	$ 557,512	$ 557,512
Furniture and Equipment	198,107	203,943
	755,619	761,455
Less Accumulated Depreciation	755,619	761,455
Net Property, Plant and Equipment	$ -	$ -

Compensated Absences and Deferred Compensation

Employees of the Organization are entitled to paid vacation, sick days and personal days depending on job classification, length of service and other factors. Expense for financial purposes is recognized for vacation when earned. The programs are charged for vacation expense when paid to the employee. Key personnel may be entitled to deferred compensation, however no expense for deferred compensation benefits was incurred during the years ended June 30, 2008 or 2007.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses

General and administrative expenses and the cost of various services applicable to more than one program are allocated to the individual programs based upon such factors as salary expense, number of meals served, space utilized and services provided. The allocation percentages are revised annually by management to result in a reasonable and equitable allocation of costs to the programs receiving benefit. Major funding sources have approved the Organization's allocation method.

2. ***Significant Accounting Policies (Continued)***

Reclassification

Certain reclassifications have been made to the amounts reported for 2007 to conform to the 2008 presentation. These reclassifications had no effect on reported change in net assets.

3. ***Concentrations and Credit Risk***

Revenue Sources

Substantially all program revenues are from state and county governmental agencies of Pennsylvania, West Virginia, Maryland, Ohio, Delaware, Virginia, Kentucky, Texas and Washington D.C. For the years ended June 30, 2008 and 2007, significant revenues were provided by the following sources:

	2008	2007
Pennsylvania Department of Education	$ 7,917,189	$ 7,400,484
Pennsylvania Managed Care Organizations	$ 9,929,012	$ 11,395,406
West Virginia Medicaid	$ 5,462,618	$ 5,769,877
West Virginia Department of Human Services	$ 9,992,837	$ 9,494,865

The accounts receivable balances for each of the funding sources identified above as of June 30, 2008 and 2007 are as follows:

	2008	2007
Pennsylvania Department of Education, net of reserves of $30,000 and $215,200	$ 395,035	$ 1,154,565
Pennsylvania Managed Care Organizations, net of reserves of $469,900 and $494,400	$ 536,622	$ 1,514,841
West Virginia Medicaid, net of reserves of $173,500 and $239,700	$ 988,470	$ 1,097,051
West Virginia Department of Human Services	$ 827,635	$ 902,526

3. ***Concentrations and Credit Risk (Continued)***

Cash and Cash Equivalents

The Organization places its cash and short-term investments with high credit quality financial institutions. At times such balances may exceed the FDIC insurance limit, however cash balances are automatically applied against the outstanding balance of the line of credit on a daily basis. The Organization has not experienced any losses on such accounts.

4. ***Beneficial Interest in Perpetual Trusts***

The Organization is a named beneficiary in various perpetual trust funds held by others in which the Organization has no right to receive the assets but has the irrevocable right to the income earned by the assets. Investment income from these funds was $10,237 and $10,520 for the years ended June 30, 2008 and 2007, respectively. The perpetual trust funds consist primarily of common stock and mutual funds. The following is a summary of the cost and market values of these investments as of June 30:

	2008		2007	
	Cost	Market Value	Cost	Market Value
Total Permanently Restricted Investments	$ 279,314	$ 306,427	$ 259,988	$ 342,868

5. ***Short-Term Debt***

The Organization entered into a line of credit agreement with a local financial institution to provide revolving credit loans up to $9,500,000 until August 16, 2009. The agreement provides two interest rate options, 85% of the floating prime rate or the LIBOR rate plus 1.2%. The LIBOR rate option is available for terms of 30 to 360 days. The loans are secured by the Organization's accounts receivable and guaranteed by the Pressley Ridge Foundation. The outstanding balances as of June 30, 2008 and 2007 consisted of the following:

	2008	2007
Floating interest rate at 85% of prime, 4.25% and 7.0125% as of June 30, 2008 and 2007, respectively	$ 6,847,000	$ 6,688,000

6. ***Long-Term Debt***

Long-term debt obligations as of June 30, 2008 and 2007 consist of the following:

	2008	2007
Tax exempt bonds issued August 1, 2002 with a fifteen (15) year amortization. Floating interest rate based on weekly interest rate, which is adjusted weekly by the remarketing agent, 2.02% and 3.80% as of June 30, 2008 and 2007, respectively. Interest paid quarterly in arrears with principal paid semi-annually in increasing amounts. Secured with an irrevocable direct-pay letter of credit with National City Bank.		
$3,200,000 Allegheny County Industrial Development Authority Variable Rate Demand Revenue Bonds, Series of 2002	$ 2,125,000	$ 2,325,000
$3,100,000 Cabell County Building Commission Variable Rate Demand Revenue Bonds, Series of 2002.	2,055,000	2,255,000
Note Payable, five (5) year term with ten (10) year amortization at 7% fixed rate. Monthly payments of $22,908 with a balloon payment due June 2012. Secured by all Organization assets and guaranty of the Foundation.	1,804,161	1,933,478
Note payable, seven (7) year term payable in monthly installments of $37,941 including interest at 6.99% through November 2012. Secured by all Organization assets and guaranty of the Foundation.	1,721,762	2,042,941
Note payable, five (5) year term at 7.55% fixed rate. Payable in monthly installments of $24,256 through November 2011. Converted from Line of Credit in November 2006. Secured by all Organization assets and guaranty of the Foundation.	640,167	872,653
Subtotal	$ 8,346,090	$ 9,429,072

(Continued)

6. ***Long-Term Debt (Continued)***

	2008	2007
Subtotal from prior page	$ 8,346,090	$ 9,429,072
Mortgage notes assumed upon purchase of Baltimore, Maryland building.		
Maryland Department of Housing and Community Development at 4% stated interest rate.	140,581	148,846
City of Baltimore Department of Housing and Community Development at 7% stated interest rate.	-	28,807
Total Long-Term Debt	8,486,671	9,606,725
Less Current Portion	1,168,052	1,130,279
Long-Term Debt, Net of Current Portion	$ 7,318,619	$ 8,476,446

The annual maturities of long-term debt are as follows:

Year Ending June 30,	
2009	$ 1,168,052
2010	1,227,387
2011	1,126,214
2012	2,169,695
2013	621,540
Thereafter	2,173,783
Total Minimum Payments	$ 8,486,671

Total interest incurred on short-term and long-term debt for the years ended June 30, 2008 and 2007 was $849,340 and $1,021,118, respectively.

6. ***Long-Term Debt (Continued)***

Bonds Payable

The $3,200,000 Allegheny County Industrial Development Authority Variable Rate Demand Revenue Bonds, Series of 2002, were issued to finance capital expenditures including the acquisition, construction, repair, improvement and equipping of the former St. Gabriel's Church for classrooms and administrative office purposes, five new townhouses, a reconfigured entrance drive, computer and telephone systems and certain windows and building finishes, together with a house and related structures, training facility and sewer treatment system in Allegheny or Fayette Counties.

The $3,100,000 Cabell County Building Commission Variable Rate Demand Revenue Bonds, Series of 2002, were issued to finance capital expenditures including the acquisition, construction, repair, improvement and equipping of, generally, and without limitation, two new dormitory buildings, together with classrooms, cafeteria, administration building and recreational areas, within its Grant Gardens campus, to be located in Ona, West Virginia in Cabell County.

These bonds are subject to various loan covenants including leverage ratios and debt service charge ratios.

Loan acquisition and issuance costs associated with the bonds are included in miscellaneous other assets. The costs are being amortized over the term of the bonds. As of June 30, 2008 and 2007, costs incurred were $250,447 with accumulated amortization of $98,786 and $82,090, respectively. Annual amortization expense for both the years ended June 30, 2008 and 2007 was $16,696.

7. ***Assets Held for Sale***

During 2008, the Organization's Board of Directors voted to cease operations and sell substantially all real property located at its Ohiopyle, Pennsylvania location. In accordance with the provisions of SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", these assets have been classified as "Assets Held for Sale" in the Organization's Statements of Financial Position. SFAS No. 144 requires assets held for sale to be valued at the lower of carrying amount or fair value. The net carrying value of these assets at June 30, 2008 was as follows:

Land	$	412,762
Buildings and Improvements		1,635,575
Furniture and Equipment		51,143
		2,099,480
Less Accumulated Depreciation		1,231,413
Net Property, Plant and Equipment	$	868,067

8. ***Self-Funded Health Insurance***

The Organization is self-insured for losses and liabilities related to health insurance claims. Losses are accrued based upon the Organization's estimate of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on the Organization's experience. Specific and aggregate stop-loss insurance policies limit the Organization's exposure to large claims, except for specifically identified individuals.

9. ***Temporarily Restricted Net Assets***

As of June 30, 2008 and 2007, temporarily restricted net assets were composed of the following:

	2008	2007
Contributions related to acquisition of buildings, land improvements and vehicles. Contributions of $53,000 in 2008, net of accumulated depreciation of $313,723 and $254,833, respectively.	$ 1,054,074	$ 1,059,964
Contributions to the West Virginia Second Family Second Chance program, net of zero expended in 2008 and 2007, respectively.	76,332	75,404
Temporarily Restricted Net Assets	$ 1,130,406	$ 1,135,368

10. ***Permanently Restricted Net Assets***

Permanently restricted net assets are composed of the fair market value of the beneficial interest in perpetual trusts held and administered by others, more fully described in Note 4. The Organization cannot receive or expend the underlying assets. However, the investment income the Organization receives from the trusts is unrestricted.

11. ***Retirement Plan***

The Organization maintains a defined contribution retirement plan covering substantially all full-time employees that provides for employer contributions and employee elective salary deferrals. Employees are eligible for the plan after completing two years of service.

The plan offers two participation options to employees hired prior to October 1995 as follows:

(1) Employer contribution of seven percent (7%) of employee's eligible salary or

(2) Employer contribution of five percent (5%) of employee's eligible salary plus an employer match of the employee's salary deferral amount, dollar for dollar, up to four percent (4%) of the eligible employee's salary.

Employees hired after October 1995 are eligible only for participation option (2) as described above. Option (2)'s benefits are graduated and start with a two percent (2%) employer contribution in the initial year of eligibility and a three percent (3%) matching contribution. Employees receive the maximum benefit after completion of five years of service. The amounts charged as operating expense in 2008 and 2007 for employer contributions were $1,124,836 and $1,160,147, respectively.

12. ***Operating Leases***

The Organization has non-cancelable lease obligations for office equipment and various vehicles used in the programs, as well as rental arrangements for office and treatment facilities. Total rent expense was $1,920,227 and $1,661,515 for the years ended June 30, 2008 and 2007, respectively.

The following is a schedule by year of future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30,	
2009	$ 1,721,460
2010	1,510,519
2011	847,428
2012	527,928
2013	169,431
Thereafter	302,400
Total Minimum Payments	$ 5,079,166

The Organization may recover a portion of the rentals previously paid on certain vehicle leases if the net proceeds of the subsequent sale of the vehicle by the lessor at the end of the lease exceed the amortized value of the vehicle.

13. ***Federal Tax on Income***

The Internal Revenue Service has determined that the Organization is exempt from federal income tax as an educational organization as described in Section 501(c)(3) of the Internal Revenue Code. As such, it is exempt from federal and state corporate income taxes.

14. ***Affiliated Party Transactions***

Pressley Ridge Foundation

Pressley Ridge Foundation (the Foundation), a nonprofit corporation exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code, was created in January 1991 to provide support for the charitable and educational purposes of Pressley Ridge. The Foundation qualifies as a supporting organization as defined under Section 509(a)(3) of the Internal Revenue Code by reason of overlapping Boards of Directors/Trustees.

All fund raising activities are performed by Foundation personnel. For the years ended June 30, 2008 and 2007, the Foundation provided grants to the Organization totaling $1,255,343 and $1,038,173, of which $1,026,555 and $896,236 was for the Pressley Ridge Institute. For administrative convenience, certain expenses of the Foundation are paid by the Organization and then reimbursed at a later date. The Organization charged the Foundation for general and administrative services; $109,597 and $119,214 in 2008 and 2007, respectively. The accounts receivable from the Foundation as of June 30, 2008 and 2007 was $117,640 and $461,059, respectively.

Pressley Ridge Maryland and Pressley Ridge Washington DC

During the year ended June 30, 2008, Pressley Ridge - Washington DC and Pressley Ridge - Maryland were formed. As of the year ended June 30, 2008, there was no activity in either organization.

Esteam

During 2002, the Organization, in conjunction with Innervate/GCS Group Inc., a Pittsburgh technology company, created two for-profit organizations; Esteam, LLC and Esteam Services, LLC. Esteam, LLC was created to develop, license and sell software for the clinical and business operations of human services organizations and to perform ancillary contracts. Esteam Services, LLC was created to provide general consulting and administrative services for clinical and business operations of human service organizations. The objective of these entities is to substantially improve quality, reduce costs and increase productivity by redesigning workflow processes and to leverage the advantage of available technical tools. Both Esteam, LLC and Esteam Services, LLC were owned 50% each by Pressley Ridge and Innervate/GCS Group Inc.

14. ***Affiliated Party Transactions (Continued)***

Transfer of Esteam Interest

On January 10, 2007, the Organization transferred its entire interest in Esteam, LLC and Esteam Services, LLC and assigned the rights to collect previously advanced amounts to Pressley Ridge Foundation in exchange for a note receivable for $1,449,235. As part of the transfer, the Organization retained the rights to collect up to an additional $918,929 should the Foundation collect additional amounts in excess of the $1,449,235. Interest income is recorded at 85% of prime, totaling $83,546 and $50,396 for the years ended June 30, 2008 and 2007, respectively.

Forgiveness of Debt from an Affiliated Party

During the year ended June 30, 2008, the Organization forgave an affiliated party advance totaling $137,204, due from Esteam, LLC.

15. ***Litigation and Other Contingencies***

Various lawsuits, claims and proceedings have been or may be asserted against the Organization. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that the change in net assets in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position of the Organization.

The Organization's financial and program records may be examined by appropriate government authorities in accordance with the terms of the various contracts, grants and applicable regulations. If warranted, adjustments to subsequent reimbursements or requests for refunds may be necessary. As discussed in Note 3, certain funding sources provide significant revenue. A significant reduction in these revenue sources could have a material impact to the related Organization's program(s).

Pressley Ridge
Notes to the Financial Statements
June 30, 2008 and 2007

16. ***Subsequent Events - Merger***

Effective July 1, 2008, the Organization completed its merger with Family and Children Services of Central Pennsylvania (F&CS). F&CS primary purpose is to promote and support the behavioral health and self sufficiency of individuals and families. F&CS's major funding sources are County Children and Youth Agencies and the United Way's of the regions served. The Organization expects to account for the merger as a pooling of interest and accordingly, historical financial information in future reports will be restated to include F&CS. As of the date of this report, the audit of F&CS has not been completed. The following unaudited pro forma information summarizes the combined results of the Organization and F&CS as if the merger had occurred at July 1, 2007:

	2008	2007
Total Support and Revenue	$ 68,574,980	$ 66,765,032
Change in Net Assets	$ (594,598)	$ (513,038)
Total Assets	$ 29,361,289	$ 31,637,991
Total Net Assets	$ 9,431,400	$ 10,025,998

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Independent Auditor's Report on Supplementary Information

To the Board of Directors
Pressley Ridge

Our report on our audits of the financial statements of Pressley Ridge as of June 30, 2008 and 2007 and for the years then ended appears on page 1. Those financial statements are the responsibility of Pressley Ridge's management. Our responsibility is to express an opinion on those 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Pressley Ridge taken as a whole. The accompanying Schedule of Findings and Questioned Costs, Summary of Prior Year Findings, Schedule of Expenditures of Federal Awards, Schedule of Expenditures of West Virginia State Awards and the Schedule of Functional Expenses by Program for the year ended June 30, 2008 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Findings and Questioned Costs, Summary of Prior Year Findings and the Schedule of Expenditures of Federal Awards are required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 financial statements taken as a whole.

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
November 12, 2008

Pressley Ridge
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I – Summary of Auditor's Results

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	__ Yes _X_ No
Significant deficiencies identified not considered to be material weaknesses?	_X_ Yes __ None reported
Noncompliance material to financial statements noted?	__ Yes _X_ No
Federal Awards	
Internal control over major programs:	
Material weaknesses identified?	__ Yes _X_ No
Significant deficiencies identified not considered to be material weaknesses?	__Yes _X_ None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	__Yes _X_ No
Identification of major programs:	

Name of Federal Program or Cluster	CFDA Numbers
Medical Assistance	93.778
Foster Care – Title IV-E	93.658

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	__ Yes _X_ No

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

(Continued)

Pressley Ridge
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

(Continued)

Significant Deficiencies

2008-1: Balance Sheet Account Reconciliations

Condition: As a result of the external audit procedures, several balance sheet accounts were identified that had problems with either reconciliation or valuation of asset and liability accounts.

Criteria: Balance sheet accounts should be reconciled and reviewed on a regular basis to guarantee that the balances are properly stated. If an audit adjustment is proposed, then the disclosure of a significant deficiency must be considered.

Cause: The problems identified were in accounts that are not as significant, prone to error or critical to the general operations of the Organization. These accounts are not subjected to the same scrutiny as other significant balance sheet accounts such as receivables or accruals. Since it was not anticipated that significant errors could occur in these accounts and the balances remained consistent with prior years, the adjustments were not identified by internal accounting personnel.

Effect: The Organization had an unexpected decrease to its net results for the year, with the potential that other adjustments could have been discovered. The potential exposure to a loss as a result or this finding appears to be limited.

Recommendation: We recommend that Pressley Ridge subject less significant accounts to more scrutiny at or near year-end to verify the totals in balance sheet accounts. In addition, the use of analytical procedures on such accounts would assist in the mitigation of the risk of misstatement.

Management Response: All accounts were reconciled to the general ledger and reviewed by the accounting coordinator monthly. The issues noted with the three less significant balance sheet accounts were instances where some of the detailed transactions within these accounts were not handled appropriately by the staff performing the reconciliations. The appropriate detailed procedures have been reinforced with the staff performing these reconciliations. The accounting coordinator will also review the detail supporting the monthly reconciliations to ensure all transactions are accounted for each month.

Pressley Ridge
Summary of Prior Year Findings
For the Year Ended June 30, 2008

Prior Year Findings

Finding 07-1:

Condition: Our review of Pressley Ridge's procedures related to cash receipts indicated that there are several individuals who have accounts receivable recording or reconciliation duties that occasionally receive remittances along with supporting documentation prior to anyone else making a record of the remittance

Recommendation: We recommend that Pressley Ridge direct these customers to send remittances directly to the lockbox. In lieu of receipt at the lockbox, an individual without billing or reconciling duties should receive and log the remittances prior to them being forwarded to the accounts receivable employees. The log should be compared to the deposit records to confirm all receipts have been properly and timely deposited.

Current Status: Personnel of Pressley Ridge contacted its customers that were not remitting payments to the lockbox and encouraged them to pay using this method. Most of the significant customers began sending payments to the lockbox or began using electronic payment methods which greatly reduced the amount of cash disbursements received by the Organization.

Finding 07-2:

Condition: Our review of Pressley Ridge's procedures related to cash disbursements indicated that several individuals within the organization have software authorization to create vendors as well as the ability to print checks. Creating a new vendor does not require pre-approval by a supervisor outside the disbursement process. Checks under certain dollar limits do not require a manual signature.

Recommendation: We recommend that Pressley Ridge implement a policy that individuals who have the ability to print checks must rely on someone outside of the payable function to approve and create new vendors. Alternatively, procedures could be established to perform a detailed review of new vendors created for each check run. This review should be documented to illustrate it is timely and consistently applied. We also recommend that the internal auditor perform a periodic review of vendor activity to detect potential improper transactions.

Current Status: The accounting supervisor is now initialing her review of the new vendor lists. The internal auditor will begin to perform periodic reviews of vendor activity to detect potential improper transactions.

Finding 07-3:

Condition: During our review of property, plant and equipment, we noted that several differences between the general ledger, fixed asset subsidiary ledgers and the physical existence of assets. These differences resulted in misclassifications and differences in depreciation expense.

Recommendation: We recommend that Pressley Ridge enhance its reconciliation procedures to not only include the monthly reconciliation of new additions, but to also reconcile subsidiary ledgers to the general ledger on at least a quarterly basis and to pro-actively inquire of asset dispositions. Additionally, depreciation expense and accumulated depreciation should also be reconciled to the general ledger on at least a quarterly basis.

Current Status: The accounting supervisor has augmented the review of the monthly reconciliations with quarterly reviews of depreciation, accumulated depreciation and additions.

Finding 07-4:

Condition: The Organization was cited with regulatory noncompliance that resulted in the Organization being issued provisional licenses for a portion of the year ended June 30, 2007.

Recommendation: We recommend that Pressley Ridge formalize the documentation of regulations applicable to each program and the internal controls established to monitor compliance with existing requirements as well as monitoring new regulatory changes. The Organization has already incorporated the internal auditor to monitor licensing requirements of these and other programs. Review of existing licensing requirements as well as monitoring regulatory changes should be performed on a regular basis.

Current Status: As stated in the recommendation, the Organization had incorporated last year the monitoring by the internal auditor of licensing requirements in addition to the program director review of regulatory requirements. Additionally, Pressley Ridge has added two additional internal auditors to be able to accomplish this important function.

Pressley Ridge
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Program Title/ Pass-through Grantor	Federal CFDA Number	Federal Award Amount	Federal Eligible Expenditures
U.S. Department of Health and Human Services			
Child Mental Health Service Initiative	93.104		
Beaver County Behavioral Health		$ 199,273	$ 199,273
Total CFDA No. 93.104		199,273	199,273
Temporary Assistance for Needy Families	93.558		
Washington County Family Preservation		39,108	39,108
Fayette County Children and Youth Services		33,266	33,266
Washington County Juvenile Probation Department		9,170	9,170
Total CFDA No. 93.558		81,544	81,544
Child Support Enforcement	93.563		
Westmoreland County Juvenile Probation Department		2,043	2,043
Total CFDA No. 93.563		2,043	2,043
Child Welfare Services - State Grants	93.645		
Westmoreland County Juvenile Probation Department		130,693	130,693
Westmoreland County Children's Bureau		18,377	18,377
Total CFDA No. 93.645		149,070	149,070
Foster Care - Title IV-E	93.658		
Allegheny County Department of Human Services		1,022,021	1,022,021
Crawford County Human Services		24,553	24,553
County of Cambria Children and Youth Services		36	36
Fayette County Children and Youth Services		231	231
Lebanon County Children and Youth Services		25,925	25,925
Washington County Children and Youth Services		68,993	68,993
Westmoreland County Juvenile Probation Department		57,562	57,562
Westmoreland County Children's Bureau		6,228	6,228
Total CFDA No. 93.658		1,205,549	1,205,549
Social Services Act - Title XX	93.667		
Allegheny County Department of Human Services		158,630	158,630
Total CFDA No. 93.667		158,630	158,630
State Children's Insurance Program	93.767		
Hamilton County Community Mental Health and Recovery Services Board		86,883	86,883
Total CFDA No. 93.767		86,883	86,883

(Continued)

See Independent Auditor's Report on Supplementary Information

Pressley Ridge
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008
(Continued)

Federal Grantor/ Program Title/ Pass-through Grantor	Federal CFDA Number	Federal Award Amount	Federal Eligible Expenditures
U.S. Department of Health and Human Services (Continued)			
Medical Assistance Program	*93.778*		
Pennsylvania Department of Public Welfare		5,640,428	5,640,428
Allegheny County Department of Human Services		* 1,556,429	* 1,556,429
Hamilton County Community Mental Health and Recovery Services Board		320,227	320,227
Total CFDA No. 93.778		7,517,084	7,517,084
Total U.S. Department of Health and Human Services		9,400,076	9,400,076
U.S. Department of Education			
Title I Grants to Local Educational Agencies	*84.010*		
Uniontown School District		72,688	72,688
Special Education - Grants to States	*84.027*		
Pennsylvania Department of Education		121,501	121,501
Total U.S. Department of Education		194,189	194,189
U.S. Department of Agriculture			
Food Donation	*10.550*		
Pennsylvania Department of Agriculture		6,089	6,089
Total CFDA No. 10.550		6,089	6,089
U.S. Department of Agriculture (Continued)			
School Breakfast Program	*10.553*		
Pennsylvania Department of Education		36,883	36,883
West Virginia Department of Education		85,681	85,681
Total CFDA No. 10.553		122,564	122,564
National School Lunch Program	*10.555*		
Pennsylvania Department of Education		60,716	60,716
West Virginia Department of Education		162,555	162,555
Total CFDA No. 10.555		223,271	223,271
Total U.S. Department of Agriculture		351,924	351,924
Total Federal Awards		$ 9,946,189	$ 9,946,189

* *See Supplemental Disclosures*

(Continued)

See Independent Auditor's Report on Supplementary Information

Pressley Ridge
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

(Continued)

Supplemental Disclosures

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pressley Ridge and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The Schedule of Expenditures of Federal Awards is based upon information provided by the various funding sources to Pressley Ridge and other information available at the time this schedule was prepared. The Organization receives federal awards as a subrecipient from various state, local and other funding agencies. In some cases the Organization is considered a contractor and not a recipient or subrecipient of federal funds. Accordingly, revenues received from sources where the Organization is considered a contractor are excluded from the Schedule of Expenditures of Federal Awards. The Organization operates several programs that are funded based upon contracted per diem rates for services rendered. For these programs, the expenditures are assumed to equal the award amount.

* - Allegheny County Department of Human Services has not been able to provide the allocation of the award between federal, state and local services, therefore the amount reported is the total award amount

See Independent Auditor's Report on Supplementary Information

Pressley Ridge
Schedule of Expenditures of West Virginia State Awards
For the Year Ended June 30, 2008

State Grantor/ Program Title/ Pass-through Grantor	State Agreement Number	State Award Amount	State Eligible Expenditures
U.S. Department of Health and Human Services			
Early Intervention/Family Support Grants	*G 080167*		
WVDHHR/Bureau of Children and Families		$ 324,162	$ 288,368

See Independent Auditor's Report on Supplementary Information

Pressley Ridge
Schedule of Functional Expenses by Program
For the Year Ended June 30, 2008
(With Comparative Total Figures for 2007)

	AFC & CFS	Educational	Residential	Special Projects and Other	Total 2008	Total 2007
Expenses						
Salaries	$ 11,654,419	$ 6,221,012	$ 11,619,201	$ 826,661	$ 30,321,293	$ 29,929,653
Payroll taxes and benefits	3,077,624	1,331,795	3,336,098	153,886	7,899,403	8,226,336
Food	75,429	619,993	981,130	6,062	1,682,614	1,617,811
Consultants, psychiatry, medical and dental	530,439	122,219	273,476	82,308	1,008,442	1,068,689
Travel	1,349,835	149,842	414,666	61,203	1,975,546	1,727,966
Clothing	9,156	-	64,667	-	73,823	79,678
Supplies	317,667	335,710	493,599	13,610	1,160,586	1,003,734
Professional parent fees	7,430,171	-	7,543	-	7,437,714	6,395,858
Purchased services	164,089	108,237	236,629	25	508,980	503,204
Children's allowance	391	-	31,551	-	31,942	32,427
Electricity	153,819	157,788	493,151	14,690	819,448	794,494
Telephone	459,959	79,942	249,862	13,899	803,662	711,359
Maintenance	128,531	131,914	275,377	1,078	536,900	568,906
Vehicle leasing and maintenance	10,202	35,656	204,247	193	250,298	214,621
Insurance	179,657	121,362	258,677	9,225	568,921	550,567
Interest expense	389,543	109,931	349,808	58	849,340	1,021,118
Rent and property taxes	812,810	101,481	614,394	22,868	1,551,553	1,414,203
Medicaid tax	19,030	-	246,193	-	265,223	278,172
Audit	93,630	40,388	74,871	3,830	212,719	201,344
Computer services	263,376	129,185	237,890	21,734	652,185	650,776
Legal	36,534	6,619	22,346	5,709	71,208	234,903
Xerox and postage	187,798	73,518	106,660	9,401	377,377	376,112
Printing	42,964	14,563	23,011	6,086	86,624	93,544
Advertising/recruiting	66,215	24,204	50,241	2,253	142,913	161,272
Depreciation	697,097	412,296	691,583	81,338	1,882,314	1,841,066
Temporary personnel	317,942	42,915	22,303	624	383,784	213,306
Training and conferences	276,205	54,931	170,072	37,585	538,793	434,351
Miscellaneous	244,658	99,657	203,636	10,007	557,958	551,640
Total Expenses	$ 28,989,190	$ 10,525,158	$ 21,752,882	$ 1,384,333	$ 62,651,563	$ 60,897,110

See Independent Auditor's Report on Supplementary Information

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Pressley Ridge

We have audited the financial statements of Pressley Ridge (a nonprofit organization) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated November 12, 2008. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs referenced as 2008-1 to be a significant deficiency in internal control over financial reporting.

(Continued)

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pressley Ridge'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*.

Pressley Ridge's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pressley Ridge's response and, accordingly, we express no opinion on it.

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

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
November 12, 2008

Malin, Bergquist & Company, LLP

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Pressley Ridge

Compliance

We have audited the compliance of Pressley Ridge with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Pressley Ridge's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pressley Ridge's management. Our responsibility is to express an opinion on Pressley Ridge's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pressley Ridge's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pressley Ridge's compliance with those requirements.

In our opinion, Pressley Ridge complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

(Continued)

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

(Continued)

Internal Control Over Compliance

The management of Pressley Ridge is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pressley Ridge's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pressley Ridge's internal control over compliance.

A control deficiency in an organization's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliances that we consider to be a material weaknesses, as defined above.

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

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
November 12, 2008