

**Consolidated Financial Statements and Report of  
Independent Certified Public Accountants in Accordance  
with OMB Circular A-133**

**NHS Pennsylvania**

**June 30, 2012 and 2011**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date     **MAR 20 2013**

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## Report of Independent Certified Public Accountants

Board of Directors  
NIIS Pennsylvania

We have audited the accompanying consolidated balance sheets of NHS Pennsylvania as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in unrestricted net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 NHS Pennsylvania'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of NHS Pennsylvania as of June 30, 2012 and 2011, and the results of its operations and changes in unrestricted 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 9, 2012 on our consideration of NHS Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 effectiveness of NHS Pennsylvania's 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of NHS Pennsylvania as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2012 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The Intellectual Developmental Disabilities Cost Report Schedules A - Expense Report and Expense Report Reconciliation for the year ended June 30, 2012 on pages 28 and 29 is required by the Waiver Direct Service Provider Audit Requirements of the Pennsylvania Department of Public Welfare, Office of Developmental Programs and is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

November 9, 2012

NHS Pennsylvania

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash	\$ 4,885,545	\$ 33,901
Restricted cash	314,456	333,886
Accounts receivable, net	22,420,815	21,851,663
Prepaid expenses and other current assets	<u>429,699</u>	<u>562,206</u>
Total current assets	28,050,515	22,781,656
Property and equipment, net	13,312,534	12,664,060
Other assets	<u>863,257</u>	<u>762,588</u>
Total assets	<u>\$ 42,226,306</u>	<u>\$ 36,208,304</u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities		
Short-term borrowings	\$ 14,826,702	\$ 6,624,204
Current maturities of long-term debt	1,135,400	168,318
Due to affiliates	77,327	4,743,335
Deferred revenue, current	531,449	618,048
Accrued payroll	5,423,262	5,133,017
Accrued expenses and other current liabilities	<u>5,285,062</u>	<u>4,634,396</u>
Total current liabilities	27,279,202	21,921,318
Deferred revenue and other long-term liabilities	2,920,745	3,250,941
Long-term debt, net of current maturities	<u>2,781,238</u>	<u>3,344,247</u>
Total liabilities	32,981,185	28,516,506
Unrestricted net assets	<u>9,245,121</u>	<u>7,691,798</u>
Total liabilities and unrestricted net assets	<u>\$ 42,226,306</u>	<u>\$ 36,208,304</u>

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

NHS Pennsylvania

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN  
UNRESTRICTED NET ASSETS

Years ended June 30,

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Net consumer service revenue	\$ 164,604,450	\$ 160,976,728
Other revenue	<u>575,527</u>	<u>903,364</u>
<b>Total revenues</b>	<b>165,179,977</b>	<b>161,880,092</b>
<b>Expenses</b>		
Salaries	79,562,509	78,980,452
Employee benefits	19,566,654	18,688,888
Purchased services	15,802,018	15,135,278
Occupancy	9,041,311	8,565,461
Insurance	2,080,622	1,855,912
Supplies and other	30,754,824	32,159,727
Provision for bad debts	5,167,305	1,895,160
Depreciation and amortization	1,418,693	1,685,627
Interest	<u>232,718</u>	<u>207,989</u>
<b>Total expenses</b>	<b><u>163,626,654</u></b>	<b><u>159,174,494</u></b>
<b>Excess of revenues over expenses</b>	<b>1,553,323</b>	<b>2,705,598</b>
<b>Unrestricted net assets, beginning of year</b>	<b>7,691,798</b>	<b>11,756,728</b>
Net asset deficiency acquired via merger (Note J)	<u>-</u>	<u>(6,770,528)</u>
<b>Unrestricted net assets, end of year</b>	<b><u>\$ 9,245,121</u></b>	<b><u>\$ 7,691,798</u></b>

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

NHS Pennsylvania

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2012</u>	<u>2011</u>
<b>Operating activities</b>		
Change in unrestricted net assets	\$ 1,553,323	\$ 2,705,598
Adjustments to reconcile changes in unrestricted net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,418,693	1,685,627
Provision for bad debts	5,167,305	1,895,160
Changes in operating assets and liabilities		
Change in restricted cash	19,430	(134,687)
Accounts receivable	(5,736,457)	(2,781,002)
Prepaid expenses and other current assets	132,507	328,325
Other assets	(104,182)	(42,826)
Due to affiliates	(4,594,076)	(195,280)
Deferred revenue, current	(86,599)	69,972
Accrued payroll	290,245	779,048
Accrued expenses and other current liabilities	650,666	(175,488)
Deferred revenue and other long-term liabilities	<u>(330,196)</u>	<u>19,829</u>
Net cash (used in) provided by operating activities	(1,619,341)	4,154,276
<b>Investing activities</b>		
Purchase of property and equipment	<u>(2,135,586)</u>	<u>(1,986,692)</u>
Net cash used in investing activities	(2,135,586)	(1,986,692)
<b>Financing activities</b>		
Net proceeds (payments on) short-term borrowings	8,202,498	(2,005,334)
Proceeds from issuance of long-term debt	584,931	-
Principal payments on long-term debt	<u>(180,858)</u>	<u>(158,068)</u>
Net cash provided by (used in) financing activities	<u>8,606,571</u>	<u>(2,163,402)</u>
Net increase in cash	4,851,644	4,182
Cash, beginning of year	<u>33,901</u>	<u>29,719</u>
Cash, end of year	\$ <u>4,885,545</u>	\$ <u>33,901</u>
<b>Supplemental cash flow information</b>		
Interest paid	\$ <u>259,332</u>	\$ <u>205,555</u>
Increase in mortgage payable for the purchase of property	\$ <u>584,931</u>	\$ <u>627,750</u>

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

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE A - ORGANIZATION

NHS Pennsylvania is a not-for-profit 501(c)(3), tax-exempt organization incorporated in the Commonwealth of Pennsylvania.

NHS Pennsylvania is the sole corporate member of NHS Stevens Center, which is the parent of Stevens Housing Corporation. NHS Pennsylvania and its subsidiaries provide comprehensive community mental health and intellectual developmental disabilities services, consisting of crisis outpatient, partial hospitalization, consulting and education. NHS Pennsylvania also provides residential, aftercare, foster care and case management services to residents of central and western Pennsylvania, Louisiana and New York.

Effective July 1, 2010, the assets, liabilities, net asset deficiency and operations of two related parties, Edgewater Psychiatric Center (Edgewater) and Northwestern Human Services of Susquehanna Valley (NHS Susquehanna Valley), were merged into NHS Pennsylvania (Note J). Both Edgewater and NHS Susquehanna Valley provided services similar to those provided by NHS Pennsylvania.

NHS Human Services, Inc. (NHS) is the sole corporate member of NHS Pennsylvania. NHS is a not-for-profit, tax-exempt corporation that serves as the parent organization of its for-profit and not-for-profit organizations, which are committed to delivering, and supporting the delivery of, mental health, intellectual developmental disabilities, drug and alcohol, juvenile justice and other health and human services to the residents of Pennsylvania, Louisiana, New York, New Jersey, Maryland, Delaware and Virginia.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated financial statements of NHS Pennsylvania are prepared and presented in accordance with accounting principles generally accepted in the United States of America for health care organizations. The consolidated financial statements include the accounts of NHS Pennsylvania and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Cash and Restricted Cash

NHS Pennsylvania participates in a consolidated cash management account with other NHS affiliates. All cash receipts are directed to lock boxes associated with the short-term borrowings (Notes G) prior to being transferred to the consolidated account. Restricted cash represents client funds held by NHS Pennsylvania.

(Continued)



NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of the allowance for doubtful accounts for receivables, allocation of administrative expenses, assumptions used to determine liabilities for self-insured employee benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

4. Net Consumer Service Revenue and Accounts Receivable

NHS Pennsylvania receives its funding through contracts with states, various cities and counties, federal programs, and agreements with managed care and insurance organizations. These contracts generally fall into two categories: cost reimbursement and fee-for-service.

Net consumer service revenue and accounts receivable are reported at the estimated net realizable amounts from consumers, third-party payors, and others for services rendered, including estimated retroactive settlements under reimbursement agreements with third-party payors. Payment arrangements include prospectively determined fee-for-service rates. The ultimate determination of amounts reimbursable under cost reimbursement contracts is based upon allowable costs to be reported to and audited by grantors and/or their agents.

Laws and regulations governing these programs are complex and subject to interpretation. NHS Pennsylvania believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

5. Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained to absorb losses in NHS Pennsylvania's accounts receivable. NHS Pennsylvania continually monitors accounts receivable for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of the service provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was approximately \$3,624,000 and \$2,297,000 at June 30, 2012 and 2011, respectively.

(Continued)

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Earned but Unbilled Accounts Receivable

NHS Pennsylvania is reimbursed by funding agencies for expenses in program-funded operations. Certain expenses are accrued for financial reporting purposes, but are not billed as program expenditures until paid. To properly match revenue and expenses, NHS Pennsylvania records an earned but unbilled accounts receivable for this accrual, and the related liability is included in accrued expenses. At June 30, 2012 and 2011, earned but unbilled accounts receivable of \$214,472 and \$292,701, respectively, are included in other current assets on the consolidated balance sheets and are attributable to accrued vacation expenses.

7. Property and Equipment

Property and equipment are recorded at cost. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	10 - 30 years
Equipment, furniture and automobiles	3 - 15 years

8. Deferred Revenue

Portions of grant awards are utilized to purchase property and equipment. NHS Pennsylvania has deferred the recognition of grant revenue related to these acquisitions until the equipment is depreciated to properly match grant revenue and depreciation expense. This deferral is recorded as deferred revenue. Such property acquired is considered to be owned by NHS Pennsylvania while used in the program for which it was purchased or in other future authorized programs; however, the funding agencies maintain a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to government regulations.

9. Income Taxes

A tax position is recognized or derecognized by NHS Pennsylvania based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NHS Pennsylvania does not believe its consolidated financial statements include any material uncertain tax positions.

10. Recently Adopted Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board (FASB) issued guidance to reduce the diversity in practice related to the accounting by health care entities for medical malpractice and similar liabilities, and their related expected insurance recoveries. The new guidance requires that insurance claims liabilities be determined without consideration of any expected insurance recoveries, consistent with practice in other industries. The guidance also clarifies that health care entities should no longer net expected insurance recoveries against the related claims liabilities. The malpractice liability guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Retrospective and early application is also permitted. The adoption of this guidance did not have a material impact on the consolidated financial statements.

(Continued)

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Pending Accounting Pronouncement

In July 2011, the FASB issued authoritative guidance to provide amendments to the presentation of the statement of operations for certain health care entities and enhanced disclosure about net patient service revenue and the related allowance for doubtful accounts. These amendments require certain health care entities to present their provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts). These amendments also require disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. Additionally, health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this update should be provided for the period of adoption and subsequent reporting periods. NHS Pennsylvania is evaluating the impact of adopting this guidance on its consolidated balance sheets and results of operations.

NOTE C - NET CONSUMER SERVICE REVENUE

Concentrations of revenues are as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Managed care organizations	42%	42%
Medical Assistance	24%	24%
County contracts	23%	26%

Net accounts receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
County	\$ 5,943,530	\$ 8,197,280
Managed care organizations	9,362,743	7,223,374
Medical Assistance	4,437,282	3,422,466
Other third parties	<u>2,677,260</u>	<u>3,008,543</u>
	<u>\$ 22,420,815</u>	<u>\$ 21,851,663</u>

NOTE D - PENSION PLAN

NHS has a 403(b) plan for substantially all employees of NHS and certain affiliates, including NHS Pennsylvania. Vesting in the plan is immediate. Employee contributions to the plan are fully matched up to 4.5% of the employees' salary. The plan also provides for an additional match of 5% of employee contributions for employees with at least 5 years of service, and 10% of employee contributions for employees with at least 10 years of service.

Employer contributions for the years ended June 30, 2012 and 2011 were \$856,281 and \$866,582, respectively.

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 764,767	\$ 757,387
Buildings and building improvements	15,990,515	14,223,051
Furniture, equipment and automobiles	<u>6,735,474</u>	<u>6,374,732</u>
Total property and equipment	23,490,756	21,355,170
Less accumulated depreciation	<u>(10,178,222)</u>	<u>(8,691,110)</u>
Property and equipment, net	<u>\$ 13,312,534</u>	<u>\$ 12,664,060</u>

Depreciation expense related to the property and equipment was \$1,487,112 and \$1,488,292 for the years ended June 30, 2012 and 2011, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

NHS Pennsylvania is one of a group of affiliated organizations related by way of common ownership and/or membership. NHS is the sole corporate member or parent company of each of the affiliated organizations. NHS Pennsylvania has significant transactions with members of the affiliated group for administrative and support services, and facility and equipment rentals. Repayment and receipt of amounts due to or from affiliated organizations is expected when cash is available. The Board of Directors authorized NHS, at the discretion of management, to charge a management fee to all non-profit subsidiaries of which it is the sole corporate member, in an amount not to exceed net income for the fiscal year. The amount due to affiliated organizations was \$77,327 and \$4,743,335 as of June 30, 2012 and 2011, respectively. Depreciation and amortization of assets held by one related party but used by others is charged based on usage of the respective assets. For the year ended June 30, 2012, depreciation and amortization of \$71,932 in excess of the amount charged to it was charged from NHS Pennsylvania to NHS and other affiliated organizations.

For the years ended June 30, 2012 and 2011, NHS Pennsylvania incurred the following expenses with related parties:

	<u>2012</u>	<u>2011</u>
Administration and support services	\$ 17,212,707	\$ 16,334,902
Management fee	3,200,000	5,000,000
Depreciation and amortization	(71,932)	63,994
Facility, equipment and auto rentals	<u>702,274</u>	<u>705,531</u>
	<u>\$ 21,043,049</u>	<u>\$ 22,104,427</u>

Interest expense related to the outstanding short-term borrowings is charged to the affiliated organizations in accordance with the NHS cost allocation plan.

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE G - SHORT-TERM BORROWINGS

NHS Pennsylvania has a revolving credit loan with maximum borrowings to \$15,000,000. A previous loan expired in February 2012 and was refinanced with a different financial institution. Under the refinanced loan, interest is payable monthly at the one-month LIBOR rate plus 3.25% (effective rate of 3.50% at June 30, 2012). The loan expires in February 2015. The outstanding balance of this loan was \$14,826,702 at June 30, 2012. Under the previous loan, interest was payable monthly at the annual LIBOR rate plus 4.00%, with an interest rate floor of 6.75% (effective rate of 6.75% at June 30, 2011). The outstanding balance of the previous loan was \$6,624,204 at June 30, 2011. This line of credit facility is secured by all assets of NHS Pennsylvania, as was the previous facility.

NOTE H - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Mortgages and notes payable	\$ 3,916,638	\$ 3,512,565
Less current maturities	<u>(1,135,400)</u>	<u>(168,318)</u>
	<u>\$ 2,781,238</u>	<u>\$ 3,344,247</u>

NHS Pennsylvania obtained financing through various mortgage agreements to purchase residential properties. Each note is secured by the underlying property. Principal and interest payments are made in monthly installments throughout the terms of the mortgages (5 - 20 years). Interest rates on the mortgages are based on both fixed and variable rates ranging from 4.50% to 8.63%.

At June 30, 2012 and 2011, NHS and the Stevens Center have a secured note payable outstanding in the amount of \$370,000 and \$430,000, respectively. The note bears interest at the Wall Street Prime Rate plus 0.50% (effective rate of 3.75% at June 30, 2012 and 2011). Principal payments in the amount of \$5,000 are due monthly. This note expires in July 2018.

Future Principal Payments

Future maturities of principal payments on long-term debt, for the next five years, are as follows:

<u>Year ending June 30:</u>	
2013	\$ 1,135,400
2014	937,527
2015	392,887
2016	745,876
2017	450,742

(Continued)

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE H - LONG-TERM DEBT - Continued

The debt agreements require NHS Pennsylvania to comply with certain terms, covenants, provisions and conditions, including, but not limited to, limitations on additional indebtedness and satisfaction of certain measures of financial performance. NHS Pennsylvania was in compliance with all financial covenants as of June 30, 2012 and 2011.

The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, approximates its carrying value at June 30, 2012 and 2011.

NOTE I - COMMITMENTS AND CONTINGENCIES

1. Lease Commitments

NHS Pennsylvania has entered into lease agreements for real estate, vehicles and equipment with various vendors. NHS Pennsylvania also enters into formal leases with affiliates. Various leases, both with vendors and affiliates, are renewed on a year-to-year basis, and are thus excluded from the future minimum rental payments in the following table.

The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30:

2013	\$ 2,574,902
2014	2,061,284
2015	1,571,322
2016	1,176,215
2017	582,669
Thereafter	<u>600,624</u>
	\$ 8,567,016

Rental expense for the years ended June 30, 2012 and 2011 totaled \$7,111,005 and \$6,496,003, respectively.

2. Professional Liability Insurance

NHS Pennsylvania maintains professional liability insurance coverage of \$5,000,000 per occurrence up to an annual aggregate of \$5,000,000. The cost of professional liability insurance amounted to \$1,060,932 and \$852,689 in 2012 and 2011, respectively.

(Continued)

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

There are known incidents occurring through June 30, 2012 that may result in the assertion of claims against NHS Pennsylvania, and other claims may be asserted arising from services provided to consumers in the past. In management's opinion, NHS Pennsylvania has adequate insurance coverage with respect to each of these incidents and does not believe that ultimate resolution of such claims would materially impact the accompanying consolidated balance sheet.

3. Self-Insured Employee Benefit Plans

NHS provides vision, dental, prescription, unemployment and workers' compensation coverage on a self-insured basis to substantially all employees of NHS.

Management has established premiums for the self-funded plans based upon the combined claims history of all plan members. Additionally, NHS maintains a reinsurance policy for workers' compensation claims that exceed specified deductibles on an individual and aggregate basis.

Due to the complexities and uncertainties involved in the actuarial evaluations, actual results could vary significantly from the estimated projections.

4. Litigation

NHS Pennsylvania is from time to time subject to routine litigation incidental to its business. Management and its counsel believe that insurance policies are sufficient to cover potential settlements and that any pending litigation will not have a materially adverse effect on NHS Pennsylvania's consolidated balance sheets.

NOTE J - MERGER

Effective July 1, 2010, the assets, liabilities, net asset deficiency and operations of Edgewater and NHS Susquehanna Valley were merged into NHS Pennsylvania

The following table summarizes the assets, liabilities and net asset deficiency merged into NHS Pennsylvania on the date of the merger:

	<u>Edgewater</u>	NHS Susquehanna <u>Valley</u>	<u>Total</u>
Current assets	\$ 510,805	\$ 646,914	\$ 1,157,719
Property and equipment, net	696,699	343,750	1,040,449
Other assets	<u>7,648</u>	<u>12,239</u>	<u>19,887</u>
Total assets	<u>\$ 1,215,152</u>	<u>\$ 1,002,903</u>	<u>\$ 2,218,055</u>

(Continued)

NHS Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE J - MERGER - Continued

	<u>Edgewater</u>	NHS <u>Susquehanna Valley</u>	<u>Total</u>
Current liabilities	\$ 7,644,046	\$ 967,624	\$ 8,611,670
Deferred revenue, long-term	310,131	66,782	376,913
Net asset deficiency	<u>(6,739,025)</u>	<u>(31,503)</u>	<u>(6,770,528)</u>
Total liabilities and net asset deficiency	<u>\$ 1,215,152</u>	<u>\$ 1,002,903</u>	<u>\$ 2,218,055</u>

NOTE K - FUNCTIONAL EXPENSES

NHS Pennsylvania is committed to delivering, or supporting the delivery of, behavioral health and intellectual developmental disabilities to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Program expenses		
Behavioral health	\$101,707,950	\$ 95,137,078
Intellectual developmental disabilities	40,724,405	40,040,359
General and administrative expenses		
Indirect costs	17,994,299	18,997,057
Management fee	<u>3,200,000</u>	<u>5,000,000</u>
Total expenses	<u>\$163,626,654</u>	<u>\$159,174,494</u>

NOTE L - SUBSEQUENT EVENTS

NHS Pennsylvania evaluated its June 30, 2012 consolidated financial statements for subsequent events through November 9, 2012. NHS Pennsylvania is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.



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SUPPLEMENTAL INFORMATION

NHS Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

<u>Grantor/pass-through grantor/program title</u>	<u>Federal program name</u>	<u>Federal CFDA number</u>	<u>Grant period</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>				
Pass-through Pennsylvania Department of Public Welfare	Medical Assistance Program (Medicaid)	93.778	07/01/11 - 06/30/12	\$ 19,852,496
Pass-through Cumberland County Drug and Alcohol Commission	Block Grants for Prevention and Treatment of Substance Abuse	93.999	07/01/11 - 06/30/12	9,399
Pass-through various County Children and Youth Programs	Temporary Assistance for Needy Families (TANF)	93.558	07/01/11 - 06/30/12	97,453
Pass-through various County Children and Youth Programs	Foster Care: Title IV - E	93.658	07/01/11 - 06/30/12	1,652,137
Pass-through Allegheny County Department of Human Services	Stephanie Tubbs Jones Child Welfare Services Program (Foster Care: Title IV-B)	93.645	07/01/11 - 06/30/12	13,990
Pass-through Beaver County Behavioral Health	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	07/01/11 - 06/30/12	520,481
Pass-through Various County Mental Health and IDD Programs	Block Grants for Community Mental Health Services	93.958	07/01/11 - 06/30/12	171,401
Pass-through Various County Mental Health and IDD and Children and Youth Programs	Social Services Block Grant	93.667	07/01/11 - 06/30/12	<u>682,306</u>
<b>Total U.S. Department of Health and Human Services</b>				<b>22,779,663</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct Funding	Supportive Housing Program	14.255	07/01/11 - 06/30/12	48,533
<b>U.S. Department of Justice</b>				
Pass-through Beaver County Behavioral Health	Recovery Act - Edward Byrne Memorial Justice Assistance Grant	16.803	07/01/11 - 06/30/12	254,936
Pass-through Beaver County Behavioral Health	Second Chance Act Prisoner Re-entry Initiative	16.812	07/01/11 - 06/30/12	<u>396,991</u>
<b>Total U.S. Department of Justice</b>				<b><u>651,927</u></b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ <u>23,459,923</u></b>

The accompanying notes to the Schedule of Expenditures of Federal Awards should be read in conjunction with this schedule.

NHS Pennsylvania

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the grant expenditures of NHS Pennsylvania 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*.

NOTE B - PENNSYLVANIA CONFIRMATION

The audit confirmation received from the Commonwealth of Pennsylvania, Department of Public Welfare contained Medical Assistance payment history for the period July 1, 2011 through June 30, 2012. These payments represented all payments made through the Provider Reimbursement and Operations Management Information Systems (PROMISE). This payment history contained payments for expenditures for both the period ended June 30, 2012 as well as June 30, 2011. The Schedule of Expenditures of Federal Awards contains only the expenditures related to the period ended June 30, 2012.



**Report of Independent Certified Public Accountants on  
Internal Control Over Financial Reporting and on  
Compliance and Other Matters**

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Board of Directors  
NHS Pennsylvania

We have audited the consolidated financial statements of NHS Pennsylvania, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered NHS Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in NHS Pennsylvania's internal control over financial reporting. We did not identify any deficiencies in NHS Pennsylvania's internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHS Pennsylvania's consolidated 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 consolidated 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*.

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

*Grant Thornton LLP*

Philadelphia, Pennsylvania

November 9, 2012



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**Report of Independent Certified Public Accountants on  
Compliance with Major Programs (OMB Circular A-133)  
and on Internal Control Over Compliance**

Officers and Directors  
NHS Pennsylvania

**Compliance**

We have audited the compliance of NHS Pennsylvania 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 its major federal programs for the year ended June 30, 2012. NHS Pennsylvania'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 its major federal programs is the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on NHS Pennsylvania'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 established by the American Institute of Certified Public Accountants; 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, *Audit 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 NHS Pennsylvania'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 of NHS Pennsylvania's compliance with those requirements.

In our opinion, NHS Pennsylvania complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

The management of NHS Pennsylvania 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 NHS Pennsylvania's internal control over compliance with requirements that could have a direct and

material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of NHS Pennsylvania's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in NHS Pennsylvania'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 on a timely basis with a type of compliance requirement of a federal program. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that the material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in NHS Pennsylvania's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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

*Grant Thornton LLP*

Philadelphia, Pennsylvania

December 26, 2012

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2012

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes      X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance (Medicaid)
16.812	Second Chance Act Prisoner Re-entry Initiative

Dollar threshold used to distinguish between type A and type B programs. \$703,798

Auditee qualified as low-risk auditee?   X   yes    \_\_\_\_\_ no



NHS Pennsylvania

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended June 30, 2012

**Section II - Financial Statement Findings**

No matters required to be reported.

**Section III - Federal Award Findings and Questioned Costs**

No matters required to be reported.

NHS Pennsylvania

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2012

None noted.



**Agreed-Upon Procedures Report of Independent Certified  
Public Accountants on Indirect Cost Allocation**

Board of Directors  
NHS Pennsylvania

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We have examined management's assertion about NHS Pennsylvania's compliance with the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations during the year ended June 30, 2012. Management is responsible for NHS Pennsylvania's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about NHS Pennsylvania's compliance based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NHS Pennsylvania's compliance with the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations.

In our opinion, NHS Pennsylvania complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2012.

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

*Grant Thornton LLP*

Philadelphia, Pennsylvania

December 26, 2012

NHS Pennsylvania

INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT  
SCHEDULE A - EXPENSE REPORT

Year ended June 30, 2012

	Excluded Non- Allowable Waiver Expenses	Eligible Expenses for Waiver Participants
<b>Expenses by category</b>		
Program direct care staff salary/wages (Schedule D)	\$ -	\$ 10,897,391
Program direct care staff HRE (Schedule D)	-	3,270,553
Other program staff salary/wages (Schedule D-1)	-	3,396,108
Other program staff HRE (Schedule D-1)	-	1,037,286
Contracted staff (Schedule D-2)	-	1,058,315
Administrative staff salary/wages (Schedule D-3)	-	322,794
Administrative staff HRE (Schedule D-3)	-	94,836
Program supplies (Schedule F)	14,030	42,233
Other vehicle expense (Schedule B-1)	-	-
Other program expense (Schedule F)	-	3,711,782
Transportation - participant motor vehicle (Schedule E-1)	-	-
Transportation - participant (Schedule I)	-	1,116,905
Other occupancy expenses (Schedule F-1)	-	309,239
Depreciation - buildings (Schedule E)	-	10,062
Depreciation - fixed assets/equipment (Schedule E-2)	-	13,486
<b>Total expenses, excluding residential occupancy</b>	<b>14,030</b>	<b>25,280,990</b>
<b>Contributions/revenue (expense offset) (Schedule B)</b>	<b>-</b>	<b>37,274</b>
<b>Expenses, net of contributions/revenue</b>	<b>14,030</b>	<b>25,243,716</b>
<b>Residential occupancy</b>		
Residential occupancy (Schedule J)	-	-
<b>Total expenses</b>	<b>\$ 14,030</b>	<b>\$ 25,280,990</b>

NHS Pennsylvania

INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT  
SCHEDULE A - EXPENSE REPORT RECONCILIATION

Year ended June 30, 2012

	Schedule A Column F Reconciliation		
	Audit	Cost Report	Difference (A)
	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants
<b>Expense by category</b>			
Program direct care staff salary/wages (Schedule D)	\$ 10,897,991	\$ 10,897,991	\$ -
Program direct care staff BRR (Schedule D)	3,270,553	3,270,553	-
Other program staff salary/wages (Schedule D-1)	3,396,108	3,396,108	-
Other program staff BRR (Schedule D-1)	1,037,286	1,037,286	-
Contracted staff (Schedule D-2)	1,058,315	1,058,315	-
Administrative staff salary/wages (Schedule D-3)	322,794	322,794	-
Administrative staff BRR (Schedule D-3)	94,836	94,836	-
Program supplies (Schedule F)	42,233	42,233	-
Other vehicle expense (Schedule B-1)	-	-	-
Other program expense (Schedule F)	3,711,782	3,711,782	-
Transportation - participant motor vehicle (Schedule E-1)	-	-	-
Transportation - participant (Schedule I)	1,116,905	1,116,905	-
Other occupancy expense (Schedule F-1)	309,239	309,239	-
Depreciation - buildings (Schedule E)	10,062	10,062	-
Depreciation - fixed assets/equipment (Schedule E-2)	13,486	13,486	-
<b>Total expenses, excluding residential occupancy</b>	<b>25,280,990</b>	<b>25,280,990</b>	<b>-</b>
Contributions/revenue (expense offset) (Schedule B)	<u>37,274</u>	<u>37,274</u>	-
<b>Expenses, net of contributions/revenue</b>	<b>25,243,716</b>	<b>25,243,716</b>	<b>-</b>
<b>Residential occupancy</b>			
Residential occupancy (Schedule J)	-	-	-
<b>Total expenses</b>	<b>\$ 25,280,990</b>	<b>\$ 25,280,990</b>	<b>\$ -</b>

	Schedule B Column B Reconciliation		
	Audit	Cost Report	Difference
<b>Total revenue - waiver LOB</b>	<b>\$ 27,727,338</b>	<b>\$ 27,727,338</b>	<b>\$ -</b>

LOUISIANA CLINICAL SERVICES\*  
MH PROGRAM SCHEDULES



Grant Thornton

**Report of Independent Certified Public Accountants on  
Supplemental Information**

Board of Directors  
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2012, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

December 26, 2012

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NHS Pennsylvania  
Louisiana Clinical Services  
Schedule of Individual Program Revenues and Expenses  
For the year ended June 30, 2012

	MHSD ACT 2/29/2012	MHSD FACT 2/29/2012	CAHSD FACT 3/31/2012	Region 7 ACT 2/29/2012	Region 7 ICM 6/30/2012	Total
REVENUE						
LOUISIANA CLINICAL SERVICES	\$ 789,855	\$ 854,416	\$ 1,084,208	\$ 567,764	\$ 283,904	\$ 3,580,147
OTHER	-	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>789,855</b>	<b>854,416</b>	<b>1,084,208</b>	<b>567,764</b>	<b>283,904</b>	<b>3,580,147</b>
DIRECT PERSONNEL SERVICES						
PERSONAL SERVICES	483,610	394,312	640,692	312,486	152,179	1,983,279
RELATED BENEFITS	104,239	91,186	117,792	65,907	34,543	413,667
PROFESSIONAL SERVICES	51,950	215,923	77,709	64,448	6,330	416,360
<b>TOTAL DIRECT PERSONNEL SERVICES</b>	<b>639,799</b>	<b>701,421</b>	<b>836,193</b>	<b>442,841</b>	<b>193,052</b>	<b>2,813,306</b>
OPERATING EXPENSES						
OPERATING SERVICES	43,338	40,880	91,323	31,085	31,925	238,551
SUPPLIES	2,776	3,680	1,590	2,608	592	11,246
TRAVEL	29,701	28,069	38,938	29,511	27,813	154,032
CAPITAL ASSETS	-	-	-	888	100	988
<b>TOTAL OPERATING EXPENSES</b>	<b>75,815</b>	<b>72,629</b>	<b>131,851</b>	<b>64,092</b>	<b>60,430</b>	<b>404,817</b>
OTHER EXPENSES						
OTHER	2,437	2,692	-	-	-	5,129
ADMINISTRATIVE	92,136	107,583	134,164	85,355	45,576	464,814
<b>TOTAL OTHER EXPENSES</b>	<b>94,573</b>	<b>110,275</b>	<b>134,164</b>	<b>85,355</b>	<b>45,576</b>	<b>469,943</b>
<b>TOTAL EXPENSES</b>	<b>810,187</b>	<b>884,325</b>	<b>1,102,208</b>	<b>592,288</b>	<b>299,058</b>	<b>3,688,066</b>
<b>DUE TO COUNTY / (UNREIMBURSED COST)</b>	<b>\$ (20,332)</b>	<b>\$ (29,909)</b>	<b>\$ (18,000)</b>	<b>\$ (24,524)</b>	<b>\$ (15,154)</b>	<b>\$ (107,919)</b>



NHS Pennsylvania  
 Louisiana Clinical Services  
 Schedule of Units of Service  
 For fiscal year ended June 30, 2012

<u>Program</u>	<u>1-7 Days</u>	<u>8-14 Days</u>	<u>15-21 Days</u>	<u>22+ Days</u>	<u>Total</u>
MHSD - ACT (3/1/2012 - 6/30/2012)	0	0	0	36	36
MHSD - FACT (3/1/2012 - 6/30/2012)	1	2	1	60	64
CAHSD - FACT (4/1/2012 - 6/30/2012)	0	0	0	0	0
Region 4 - ACT (5/1/2012 - 6/30/2012)	0	0	0	6	6
Region 5 - ACT (5/1/2012 - 6/30/2012)	1	0	1	18	20
Region 6 - ACT (5/1/2012 - 6/30/2012)	5	2	0	8	15
Region 7 - ACT (3/1/2012 - 6/30/2012)	1	2	0	42	45
<b>TOTAL</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>170</b>	<b>186</b>

LOUISIANA OFFICE OF BEHAVIOR HEALTH  
MH PROGRAM SCHEDULES



Grant Thornton

**Report of Independent Certified Public Accountants on  
Supplemental Information**

Board of Directors  
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2012, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

December 26, 2012

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NHS Pennsylvania  
Louisiana Office of Behavioral Health  
Schedule of Individual Program Revenues and Expenses  
For the year ended June 30, 2012

	Region 4 ACT 4/30/2012	Region 5 ACT 4/30/2012	Region 5 ICM 6/30/2012	Region 6 ACT 4/30/2012	Total
REVENUE					
OBH LOUISIANA	\$ 721,955	\$ 505,677	\$ 470,137	\$ 711,544	\$ 2,409,313
OTHER	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE	721,955	505,677	470,137	711,544	2,409,313
DIRECT PERSONNEL SERVICES					
PERSONAL SERVICES	368,763	247,691	267,800	279,129	1,163,383
RELATED BENEFITS	89,430	55,235	71,313	53,980	269,958
PROFESSIONAL SERVICES	<u>89,461</u>	<u>82,325</u>	<u>6,408</u>	<u>204,839</u>	<u>383,033</u>
TOTAL DIRECT PERSONNEL SERVICES	547,654	385,251	345,521	537,948	1,816,374
OPERATING EXPENSES					
OPERATING SERVICES	46,095	35,011	34,177	45,144	160,427
SUPPLIES	4,654	3,032	3,465	4,238	15,389
TRAVEL	46,200	28,200	36,600	48,000	159,000
CAPITAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING EXPENSES	96,949	66,243	74,242	97,382	334,816
OTHER EXPENSES					
ADMINISTRATIVE	<u>89,045</u>	<u>57,592</u>	<u>65,073</u>	<u>82,573</u>	<u>294,283</u>
TOTAL OTHER EXPENSES	<u>89,045</u>	<u>57,592</u>	<u>65,073</u>	<u>82,573</u>	<u>294,283</u>
TOTAL EXPENSES	<u>733,648</u>	<u>509,086</u>	<u>484,836</u>	<u>717,903</u>	<u>2,445,473</u>
DUE TO COUNTY / (UNREIMBURSED COST)	<u>\$ (11,693)</u>	<u>\$ (3,409)</u>	<u>\$ (14,699)</u>	<u>\$ (6,359)</u>	<u>\$ (36,160)</u>



**Report of Independent Certified Public Accountants on  
Supplemental Information**

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Board of Directors  
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2012, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

December 26, 2012

NHS Pennsylvania  
Louisiana Clinical Services  
Schedule of Individual Program Revenues and Expenses  
For the year ended June 30, 2012

	MHSD ACT 2/29/2012	MHSD FACT 2/29/2012	CAHSD FACT 3/31/2012	Region 7 ACT 2/29/2012	Region 7 ICM 6/30/2012	Total
REVENUE						
LOUISIANA CLINICAL SERVICES	\$ 789,855	\$ 854,416	\$ 1,084,208	\$ 567,764	\$ 283,904	\$ 3,580,147
OTHER	-	-	-	-	-	-
TOTAL REVENUE	789,855	854,416	1,084,208	567,764	283,904	3,580,147
DIRECT PERSONNEL SERVICES						
PERSONAL SERVICES	483,610	394,312	640,692	312,486	152,179	1,983,279
RELATED BENEFITS	104,239	91,186	117,792	65,907	34,543	413,667
PROFESSIONAL SERVICES	51,950	215,923	77,709	64,448	6,330	416,360
TOTAL DIRECT PERSONNEL SERVICES	639,799	701,421	836,193	442,841	193,052	2,813,306
OPERATING EXPENSES						
OPERATING SERVICES	43,338	40,880	91,323	31,085	31,925	238,551
SUPPLIES	2,776	3,680	1,590	2,608	592	11,246
TRAVEL	29,701	28,069	38,938	29,511	27,813	154,032
CAPITAL ASSETS	-	-	-	888	100	988
TOTAL OPERATING EXPENSES	75,815	72,629	131,851	64,092	60,430	404,817
OTHER EXPENSES						
OTHER	2,437	2,692	-	-	-	5,129
ADMINISTRATIVE	92,136	107,583	134,164	85,355	45,576	464,814
TOTAL OTHER EXPENSES	94,573	110,275	134,164	85,355	45,576	469,943
TOTAL EXPENSES	810,187	884,325	1,102,208	592,288	299,058	3,688,066
DUE TO COUNTY / (UNREIMBURSED COST)	\$ (20,332)	\$ (29,909)	\$ (18,000)	\$ (24,524)	\$ (15,154)	\$ (107,919)

NHS Pennsylvania  
Louisiana Clinical Services  
Schedule of Units of Service  
For fiscal year ended June 30, 2012

<u>Program</u>	<u>1-7 Days</u>	<u>8-14 Days</u>	<u>15-21 Days</u>	<u>22+ Days</u>	<u>Total</u>
MHSD - ACT (3/1/2012 - 6/30/2012)	0	0	0	36	36
MHSD - FACT (3/1/2012 - 6/30/2012)	1	2	1	60	64
CAHSD - FACT (4/1/2012 - 6/30/2012)	0	0	0	0	0
Region 4 - ACT (5/1/2012 - 6/30/2012)	0	0	0	6	6
Region 5 - ACT (5/1/2012 - 6/30/2012)	1	0	1	18	20
Region 6 - ACT (5/1/2012 - 6/30/2012)	5	2	0	8	15
Region 7 - ACT (3/1/2012 - 6/30/2012)	1	2	0	42	45
<b>TOTAL</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>170</b>	<b>186</b>

Internal Control Letter

**NHS Human Services, Inc.**

June 30, 2012





Grant Thornton

October 2, 2012

**Audit • Tax • Advisory**

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Management and the Audit Committee of the Board of Directors  
NHS Human Services, Inc  
Lafayette Hill, Pennsylvania

Ladies and Gentlemen

In connection with our audit of NHS Human Services, Inc's ("NHS") consolidated financial statements as of June 30, 2012 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") established by the American Institute of Certified Public Accountants require that we advise management and the board of directors (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit

### **Our responsibilities**

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of NHS's internal control. Accordingly, we express no such opinion on internal control effectiveness.

### **Identified deficiencies in internal control**

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention

### **Control deficiencies**

A deficiency in internal control ("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 and correct misstatements on a timely basis

### **Recommendations to strengthen internal control**

We recommend that NHS and those charged with governance consider the following actions

## **INFORMATION TECHNOLOGY**

### **Observation and Recommendation:**

During our current year audit, we observed that management has implemented recommendations for improvement from the prior year within their overall information technology ("IT") plan to improve their IT infrastructure and network security

In the current year, the following recurring opportunities for improvement exist to continue to enhance the overall security and change management process at NHS

- We noted that change management policies and procedures are not formalized. We recommend that management develop a formal policy and procedure related to change management. Also, management should ensure that the Change Management Policy and Procedure developed also includes the Emergency Change Management process
- Currently, certain security event logs within the Windows operating system, CSM application and SQL database are reviewed on an as-needed basis. However, documentation of review

is not formally documented nor retained. We recommend that management develop a formal policy and procedure related to the periodic review of system event logs. Additionally, management should perform a regular, scheduled review of the system event logs within the Windows operating system, CSM application, and SQL database.

- Opportunity exists to enhance the design and operating effectiveness of internal controls relating to performing user access reviews to confirm that the operating system and applications have appropriate access for all users. We recommend that management review applications and network users' account listings, to ensure that generic or group IDs do not exist, active accounts for terminated employees have been disabled or removed, and administrative access is granted to only necessary and appropriate personnel.
- We noted that terminated users are not disabled in a timely manner. The termination process is a manual process at this time, and efficiency between the business side of the removal process and the IT side of the process can be enhanced. We recommend that management implement an automated process that notifies the IT team immediately of the termination of a user in order to ensure that users are removed from logical and system access within 24 hours of termination.

#### Management's Response.

- During the audit period, NHS implemented a formal Change Management procedure utilizing web forms via an automated workflow solution, which utilizes Sharepoint. While the process is now formalized for many aspects of IT related activities, we recognize the need for formal policy and system development in regards to working with NHS Business Units.
- NHS purchased and implemented a Log Event Management solution in Q4 of fiscal year 2012. Currently, critical Data Center network systems are configured for monitoring and reports are being reviewed on a daily basis per our internal departmental policy. In addition, several key Windows Systems are also logging to this solution at this time. By the end of the 2<sup>nd</sup> quarter fiscal year 2013, our plan is to have all Critical Applications/Systems event logs ingested into this logging solution, and we will develop policies and procedures for review and reporting on both a daily and scheduled basis.

- While informal access reviews are in fact performed, and in many cases documented in the IT Work Order and Change Management systems, management recognizes the need to develop formal policies and procedures in order to more appropriately address this deficiency, as we also recognize these functions to be IT industry best practices
- IT management is directly involved at the Corporate Committee level in regard to the development of such an automated process. The committee is comprised of members of HR, Payroll, and IT, and the effort is being treated as a very high priority for the current fiscal year, as the deficiencies, ineffectiveness, and potential risk of the current manual process is recognized at multiple levels within NHS

\* \* \* \* \*

#### **Management's response**

NHS Human Services, Inc.'s written response to the recommendations identified herein has not been subjected to our audit procedures, and accordingly, we express no opinion on it

This communication is intended solely for the information and use of management, those charged with governance, others within NHS, and applicable federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Very truly yours,

Grant Thornton LLP