MONROE HEALTH CENTER

UNION, WEST VIRGINIA

FINANCIAL STATEMENTS

JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Monroe Health Center
Union, West Virginia

We have audited the accompanying basic financial statements of the Monroe Health Center (the Center), as of and for the year ended June 30, 2008, as listed in the table of contents These financial statements are the responsibility of the Center's management Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audit provides a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2008, the Center adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 21, 2009, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

The Monroe Health Center has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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.

As discussed in Note 16 to the financial statements, the Center has expended certain federal grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability has been made in the financial statements for possible federal claims for refunds of those grant monies.

Hayflich & Steinberg, CPA's, PLLC

HAYFLICH & STEINBERG, CPA'S, PLLC

January 21, 2009

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MONROE HEALTH CENTER
BALANCE SHEET
JUNE 30, 2008

ASSETS

Current Assets	
Cash and cash equivalents	$ 97,398
Patient accounts receivable, (net of allowance for doubtful accounts of $191,433)	359,179
Grants receivable	72,500
Accounts receivable - other	72,970
Inventories	58,650
Prepaid expenses	4,698
Total Current Assets	665,395
Capital Assets, net	525,234
Intangibles and Other Assets	111,317
TOTAL ASSETS	$ 1,301,946

LIABILITIES AND NET ASSETS

Current Liabilities	
Note payable - related party	$ 99,631
Current obligations under capital leases	6,818
Accounts payable and accrued expenses	622,134
Total Current Liabilities	728,583
Noncurrent Liabilities	
Other post employment benefits liability	66,019
Noncurrent obligations under capital leases	9,938
Total Noncurrent Liabilities	75,957
Total Liabilities	804,540
Net Assets	
Invested in capital assets net of related debt	525,234
Unrestricted	(27,828)
Total Net Assets	497,406
TOTAL LIABILITIES AND NET ASSETS	$ 1,301,946

The accompanying notes are an integral part of the financial statements

MONROE HEALTH CENTER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

Operating Revenues and Other Support	
Net patient service revenue (net of provision for bad debts of $125,180)	$ 2,294,383
Operating grants	1,871,804
Contractual income	236,375
Other income	156,878
Total Operating Revenues and Other Support	4,559,440
Operating Expenses	
Salaries and wages	2,177,302
Benefits and payroll taxes	888,795
Supplies	403,641
Depreciation and amortization	104,249
Rent	173,779
Purchased services	96,710
Repairs and maintenance	210,716
Provider taxes	10,595
Other expenses	376,735
Total Operating Expenses	4,442,522
Operating Income	116,918
Nonoperating Revenues (Expenses)	
Interest income	796
Rental income	12,409
Nonoperating grants and contributions	48,829
Interest expense	(8,327)
Total Nonoperating Revenues (Expenses)	53,707
Excess of Revenues Over Expenses and Increase in Unrestricted Net Assets	170,625
Net Assets, Beginning of Year	326,781
Net Assets, End of Year	$ 497,406

The accompanying notes are an integral part of the financial statements

MONROE HEALTH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

Cash Flows From Operating Activities	
Receipts from and on behalf of patients	$ 3,551,568
Payments to suppliers and contractors	(898,377)
Payments to employees	(2,871,788)
Other receipts and payments, net	278,790
Net Cash Provided by Operating Activities	60,193
Cash Flows From Noncapital Financing Activities	
Noncapital grants and contributions	61,238
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	(113,925)
Proceeds from line of credit	23,000
Principal payments on capital lease obligations	(4,123)
Interest paid on long-term debt	(6,414)
Net Cash Used in Capital and Related Financing Activities	(101,462)
Cash Flows From Investing Activities	
Interest income	796
Net Increase in Cash and Cash Equivalents	20,765
Cash and Cash Equivalents, Beginning of Year	76,633
Cash and Cash Equivalents, End of Year	$ 97,398

The accompanying notes are an integral part of the financial statements

MONROE HEALTH CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$	116,918
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		104,249
Provision for bad debts		125,180
Changes in:		
Patient accounts receivable		(315,660)
Grants receivable		(72,500)
Other receivables		(37,812)
Inventory		(11,948)
Prepaid expenses		1,186
Accounts payable and accrued expenses		150,580
Net Cash Provided by Operating Activities	$	60,193

Noncash Investing, Capital and Financing Activities:

The Center entered into capital lease obligations of $20,879 for equipment in fiscal year 2008.

MONROE HEALTH CENTER
NOTES TO THE FINANCIAL STATEMENTS

Note 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities: Monroe Health Center (the Center) is a successor organization to Monroe Health Services, Incorporated. The Center was formed July 31, 1981, as an outgrowth of certain litigation with the Southern West Virginia Regional Health Council, Incorporated, regarding the possession and operation of the Center. The Center through its main location in Union, West Virginia and its two satellite clinics in Peterstown, West Virginia and Craig County, Virginia, furnish various medical services to residents of Monroe and surrounding counties. The Center's main sources of revenue are state and federal financial awards and charges for medical related services

During 2008, the Center opened a second satellite clinic in Craig County, Virginia.

Enterprise fund accounting: The Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the valuation of accounts receivable for the amount expected to be ultimately collected. It is at least reasonably possible that the significant estimates used will change within the next year

Cash and cash equivalents: For purposes of reporting the statement of cash flows, the Center considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents

Leases: The liability for lease obligations, which are in substance installment purchases, has been recorded in the financial statements and the leased property and equipment capitalized as fixed assets. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Annual rentals pertaining to leases that convey merely the right to use property are charged to current operations. Amortization of capital leases is included in depreciation and amortization expense on the statement of revenues, expenses, and changes in net assets

Compensated absences: Center employees generally earn vacation and sick leave on an annual basis Vacation, up to specific limits, is fully vested when earned, and sick leave, while not vesting to the employee prior to retirement, can be carried over to subsequent periods. Any unused sick leave accumulated at employee retirement vests to the employee and may be provided in the form of post-retirement payment of all or a portion of the employee's health insurance premiums, or as service credits for retirement purposes Expenditures for vacation is recognized as incurred in the accompanying financial statements and present the cost of accumulated vacation leave as a liability.

Postemployment benefits: The Center pays 100% of the health insurance premium for retirees who elected to participate in the health insurance plans prior to July 1, 1988 and 50% of the premium for retirees who elected to participate between that date and July 1, 2001. Employees who were eligible and elected to participate in the Center's health insurance plan at July 1, 1988 and 2001, and who had continuous participation in the Plan since those dates, are eligible for post retirement benefits Employees hired subsequent to July 1, 2001 are not eligible for these benefits Expenditures for postemployment health insurance premiums are recognized as incurred in the accompanying financial statements and present the cost of accumulated postemployment health insurance as a liability. Effective July 1, 2007, the Center, adopted GASB Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)* This statement provided standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. The Center elected to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund sponsored by the State of West Virginia Details regarding this plan can be obtained by visiting the West Virginia PEIA website: http://www.wvpeia.com. The aforementioned statements require entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable. Further OPEB and PEIA disclosures are made in Notes 2 and 7

Cost of borrowing: All interest costs incurred for the year ended June 30, 2008 have been expensed.

Advertising: The cost of advertising, public relations, and marketing programs are charged to operations as incurred. Total advertising expense for the year ended June 30, 2008 was $16,022.

Net assets: Net assets and revenues, gains, and losses are classified based on donor imposed restrictions Accordingly, net assets of the Center and changes therein are classified and reported as follows:

- *Invested in capital assets, net of related debt* - This represents the Center's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt

- *Restricted net assets, expendable* - This includes resources in which the Center is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The Center had no restricted net assets, expendable, at June 30, 2008

- *Restricted net assets, nonexpendable* - This includes the principal portion of permanent endowment and similar type funds. The Center had no restricted net assets, nonexpendable, at June 30, 2008

- *Unrestricted net assets* - This represents resources derived from other than capital assets or restricted net assets These resources are used for transactions relating to the general operations of the Center and may be used at the discretion of the Board of Trustees to meet current expenses for any purpose.

Inventories: Inventories are stated at the lower-of-cost-or-market. Cost is determined by the first-in, first-out (FIFO) method.

Donated goods, services and facilities: Donated goods, services and other assets are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of gift. In addition, the fair market value of office space occupied free of rent has been reflected in the accompanying financial statements in the same manner. No amounts have been recognized in the financial statements for donated services unless such services are provided by professionals and would normally be procured by the Center.

Capital Assets: Capital assets are recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of each class of depreciable asset Expenditures for maintenance and repairs that do not extend the useful life of the applicable assets are expensed as incurred. The estimated useful lives for each major class of depreciable fixed assets are as follows:

Leasehold improvements	8 to 15 years
Office and Medical	3 to 15 years
Vehicles	3 to 5 years

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support, and excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Net patient service revenue and patient accounts receivable: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors as well as bad debts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicaid reimburses the Center for services based upon reasonable and customary established rates. The Center uses the allowance method for uncollectible accounts receivable. The allowance is estimated and is based on historical collection experience and a review of the current status of accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of $191,433 as of June 30, 2008.

Operating revenues and expenses: The Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and contributions: The Center receives grants and contributions from governmental organizations, private individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Expense allocation: Expenses which are not specifically identified with a particular service are allocated to the various program services based upon time devoted by Center staff in performing program functions.

Charity care: The Center provides care to individuals who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from revenue under the Center's charity care policy were $566,423 at June 30, 2008.

Bad debts: In addition to those patients unable to pay, there are patients receiving services who will not pay. The Center has established credit and collection policies to hold these costs to a minimum. These costs have been offset against net patient service revenues in the statement of revenues, expenses and changes in net assets, net of any collections received subsequent to write-off.

Income taxes: The Center is a sub-division of the Monroe County Commission and is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and similar state statutes.

Goodwill: Definite life intangible assets are amortized over their estimated useful lives The Center is required to conduct an annual review of goodwill and intangible assets for potential impairment Goodwill impairment testing requires a comparison between the carrying value and fair value of each reporting unit. If the carrying value exceeds the fair value, goodwill is considered impaired The amount of impairment loss is measured as the difference between the carrying value and implied fair value of goodwill, which is determined using discounted cash flows. Impairment testing for non-amortizable intangible assets requires a comparison between the fair value and carrying value of the intangible asset If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. During 2008, there was no impairment of Goodwill recorded.

Note 2: POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Center's OPEB Plan costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts At June 30, 2008, the noncurrent liability related to OPEB cost was $66,019 The total OPEB expense incurred was $215,320 during 2008 As of the year ended June 30, 2008, there were no retiree's receiving benefits.

Note 3: DEPOSIT RISKS

Custodial credit risk is the risk that in the event of a financial institution failure, the Center's deposits may not be returned to it. The Center maintains its cash balances in financial institutions located near Union, West Virginia. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2008, the Center had deposits in banks which exceeded the Federal Deposit Insurance Corporation insured limits of $100,000 per depositor per bank by $8,022.

The Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Center historically has maintained invested assets solely in cash equivalent investment instruments that have limited exposure to fair value fluctuations resulting from changes in interest rates.

Note 4: COMPOSITION OF CONTRACTUAL INCOME AS SOURCE OF FUNDS

Contractual income for the fiscal year ended June 30, 2008, consists of:

Source	Amount
Springfield Center	$ 7,000
Monroe County Board of Education	17,129
Capitation Payments	12,516
Monroe County Health Department	199,730
Total contractual income	$ 236,375

Note 5: NET WORKING CAPITAL (DEFICIT)

The Center's net working capital (deficit) as of June 30, 2008, was as follows:

Description	Operating Fund
Current assets, June 30, 2008	$ 665,395
Current liabilities, June 30, 2008	728,583
Net working capital deficit, June 30, 2008	$ (63,188)

Note 6: CAPITAL ASSETS

Capital asset additions, retirements and balances for the year ended June 30, 2008 follows:

	Balance at 06/30/07	Additions	Retirements	Balance at 06/30/08
Leasehold improvements	$ 982,616	$ 4,350	$ -	$ 986,966
Office equipment	321,772	86,297	-	408,069
Medical equipment	290,789	44,157	-	334,946
Vehicles	48,772	-	-	48,772
Totals at historical cost	1,643,949	134,804	-	1,778,753
Less accumulated depreciation for:				
Leasehold improvements	(651,109)	(47,807)	-	(698,916)
Office equipment	(204,699)	(38,464)	-	(243,163)
Medical equipment	(247,898)	(14,770)	-	(262,668)
Vehicles	(45,564)	(3,208)	-	(48,772)
Total accumulated depreciation	(1,149,270)	(104,249)	-	(1,253,519)
Capital assets, net	$ 494,679	$ 30,555	$ -	$ 525,234

Depreciation and amortization expense for the year ended June 30, 2008 amounted to $104,249.

Note 7: RISK MANAGEMENT

The Center is exposed to various risks or loss related torts, theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters The Center, pursuant to the provisions of Federal and State laws and regulations, participates in the following risk management programs administered by the State of West Virginia and the U S Department of Health and Human Services, Bureau of Primary Health Care:

Board of Risk and Insurance Management (BRIM): The Center participates in the West Virginia Board of Risk and Insurance Management, a common risk pool for all State agencies, component units, boards of education and other local government agencies who wish to participate. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage, as determined by BRIM, is paid by participants. The BRIM risk pool contains the risk of the first two million dollars per property event and purchases excess insurance on losses above that level. BRIM has one million dollars per occurrence coverage maximum on all third-party liability claims.

Public Employees Insurance Agency (PEIA): The Center provides employees health and basic life insurance benefits through the Public Employees Insurance Agency. PEIA was established by the State of West Virginia to provide a program of health and life insurance for employees of State agencies, institutions of higher learning, boards of education, and component units of the State. In addition, local governmental agencies and certain charitable and public service organizations may request to be covered. PEIA provides a general employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Fund underwriting and rate settling policies are established by the PEIA Finance Board. The cost of all coverage as determined by the Finance Board is paid by the participants. The PEIA risk pool retains the risk for the health and prescription features and purchases insurance coverage for the life features of the plan. Coverage under these programs is limited to one million dollars lifetime for health and ten thousand dollars of life insurance coverage. Insured may purchase up to an additional fifty thousand dollars of life insurance coverage.

Workers' Compensation Fund (WCF): West Virginia has a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies can begin to offer coverage to private-sector employers beginning July 1, 2008 and to government employers July 1, 2012. Nearly every employer in the State, including all boards of education, who have a payroll must have coverage. The cost of all coverage, as determined by BrickStreet, is paid by the employers. The WCF risk pool retains all the risk related to the compensation of injured employees under the program.

Section 224 – Federal Torts Claims Act (FTCA): The Center has been deemed to be an employee of the Federal Government for the purposes of Section 224 and is therefore entitled to liability protection under the FTCA for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions and is exclusive of any other civil action or proceeding. FTCA coverage is applicable to the Center's officers, governing board members, employees, and contractors who are physicians or other licensed or certified health care practitioners providing family practice, general internal medicine, general pediatrics, or obstetrical/gynecological services. FTCA coverage is comparable to an "occurrence" policy without a monetary gap. Therefore, any coverage limits that may be mandated by other insurers are met by the FTCA. All judgments or settlements in excess of coverage limits must be approved by the Attorney General.

Note 8: EMPLOYEES' RETIREMENT SYSTEM

The Center elected to become a participant under the West Virginia Public Employees' Retirement System (PERS) for the coverage of all eligible employees. The PERS is a cost-sharing multiple-employer public employee retirement system which is funded through employer contributions of 10.5% of payroll and member contributions of 4.5% of payroll

Total employer and employee contributions for the year ended June 30, 2008, were $322,025. The Center's contributions approximated $285,931 and $212,094 in total for the years ended June 30, 2007 and 2006.

A member who has attained age 60 and has earned five or more years of contributing service, or at least age 55 with age and service equal to 80, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within ten years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. The PERS also provides deferred retirement, early retirement, death and disability benefits

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date The measure, which is the actuarial present value of credited projected benefits, is intended to help interested parties assess the PERS' funding status on a going-concern basis. The PERS does not make separate measurements of assets and pension benefit obligation for individual state agency employers. The pension benefit obligation at July 1, 2007 (the latest date for which an actuarial valuation has been performed) for the PERS State Employees' Division was $4,426,051,000 and the fair value of net assets available for benefits on this date was $4,293,296,000.

Therefore, the unfunded pension benefit obligation was $132,755,000 The weighted average discount rate used in the actuarial present value of the projected benefit obligation was 7.5% at July 1, 2007, 2006 and 2005. The rate of increase in future compensation levels used in determining the actuarial present value of projected benefit obligations was 3.75% - 6.0% at July 1, 2007, 2006 and 2005 Historical trend information showing the PERS progress in accumulating sufficient assets to pay benefits when due is available in the annual report of the PERS, a copy of which can be obtained by contacting the PERS

Note 9: DONATED SERVICES AND MATERIALS

The Center received medications, medical supplies, and miscellaneous supplies at no cost to the Center from various vendors during the audit period. These medications and supplies are recorded in the Center's general purpose financial statements at fair market value on the date they are received. The Monroe County Commission also furnishes certain insurance coverage to the Center and in return the Center furnishes office space for the Monroe County Health Department and Family Refuge at no cost. This is recorded in the Center's general purpose financial statements based on the rent charged other occupants of the Center's building

Note 10: OPERATING LEASES

The Center conducts all of its functions from leased facilities The terms of the Center's operating leases range from ten to fifteen years

The following is a schedule of future minimum lease payments required under operating leases that have an initial term or remaining non-cancelable lease term in excess of one year as of June 30, 2008:

Year Ending June 30,	
2009	$ 101,508
2010	101,508
2011	101,508
2012	101,508
2013	101,508
2014 and thereafter	32,365
Total	$ 539,905

Note 11: CAPITAL LEASES

The Center entered into capital lease agreements during the fiscal year ended June 30, 2008 These capital lease obligations have varying interest rates from 0% to 3 4% These capital leases are all non-cancelable and collateralized by leased equipment. At June 30, 2008, leased equipment with a net book value of $20,879 is included in medical equipment. Scheduled payments on capital lease obligations are as follows:

Year Ending June 30,		
2009	$	6,923
2010		3,918
2011		2,414
2012		2,414
2013		1,207
Total		16,876
Less interest on capital lease obligations		120
	$	16,756

Note 12: RELATED PARTY ACTIVITY

Monroe County Commission (Commission): The Center entered into a lease agreement with the Commission in January 1994 for 9,500 square feet in the county-owned facility in Union, WV, including certain items of equipment/furnishings and the adjoining parking lot. Rent payments totaling $4,750 each month were made to the Commission, until the decision was made by both parties to cease the monthly payments in March of 2008.

Monroe County Building Commission (Building Commission): The Building Commission has title to the property and structure of which the Center currently occupies in Union and Peterstown, West Virginia The property was deeded to the Building Commission by the Monroe County Commission in order to obtain a loan by mortgage to construct additions to the structures. Under West Virginia law, the legal title for the property and structures had to be in the name of the Building Commission The Center is responsible to the Building Commission to make repayment of the Building Commission's loans.

Two loans for the Union property were made by the Building Commission. During fiscal year ended June 30, 1998, a loan was made by the Bank of Monroe for $120,000 at an interest rate of 7 0% per annum It was repayable in 120 payments of $1,393 each, including principal and interest, secured by a second deed of trust on the property. The balance of this loan was paid in full during fiscal year ended June 30, 2008 During fiscal year ended June 30, 1999, a second loan was made by the West Virginia Water Development Authority on behalf of the West Virginia Infrastructure and Jobs Development Council The loan was for $641,236 at an interest rate of 3% per annum It is repayable in 180 payments of $4,428 each, including principal and interest, secured by a solo first lien deed of trust on all of the real property and improvements thereto, and an assignment of leases pertaining to the property.

During fiscal year ended June 30, 2003, two loans were made for the Peterstown property by the Building Commission. A loan was made by the Center for Rural Health Development, Inc for $192,500 at an interest rate of 4.0% per annum. It is repayable in 120 payments of $1,949 each, including principal and interest, secured by a shared first lien deed of trust position on the Peterstown property, assignment of leases and rents and an assignment of a security agreement. A second loan was made by the Bank of Monroe for $187,500 at an interest rate of 6.0% per annum. It is repayable in 120 payments of $2,082 each, including principal and interest, secured by a shared first lien deed of trust position on the Peterstown property. As a condition of these loans, the Center entered into a lease agreement with the Building Commission effective June 1, 2003 to reflect the exact amount of the debt obligation of the Building Commission, renewed annually.

Rent expense to related parties amounted to $151,223 for the year ended June 30, 2008.

Note 13: NOTE PAYABLE – RELATED PARTY

During the fiscal year ended June 30, 2007, the Building Commission entered into a commercial line of credit agreement of a maximum of $100,000 with the Bank of Monroe on behalf of the Center. The Building Commission extended an unsecured line of credit to the Center with interest due monthly at 7.75%. The balance was $99,631 at June 30, 2008.

Note 14: HEALTH CARE LEGISLATION AND REGULATION

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the Center is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Center is found in violation of these laws, the Center could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs.

Note 15: CONCENTRATION OF CREDIT RISK

The Center has locations in Union and Peterstown, West Virginia, as well as Craig County, Virginia. The Center grants credit without collateral to its clients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from clients and third-party payors is as follows at June 30, 2008:

Medicare	42%
Medicaid	18%
Self pay	16%
Other third-party payors	24%
Total	100%

Note 16: GRANT VIOLATIONS

As noted in the Schedule of Findings and Questioned Costs, the Center had inadequate policies and procedures in place for the approval of a patient sliding fee scale; the monitoring of inventory at affiliated pharmacies; and the mitigation of exposure to management override of controls These inadequacies could cause inaccurate payment of compensation, lost revenue, an inaccurate physical inventory, and the payment of unallowed costs, which are violations of certain restrictive provisions of the related grant and its related cost principles.

Note 17: CONTINGENCIES

As of July 1, 2007, the Center was liable for delinquent payment of its federal and state of West Virginia payroll tax obligations totaling $290,000 and $70,000 The Center worked with the Internal Revenue Service and the state of West Virginia to bring these obligations into compliance.

Included in current liabilities on the balance sheet at June 30, 2008 the Center owed $262,794 and $72,850 in federal payroll taxes in arrears and accrued penalty and interest charges.

The Center incurred federal and state tax penalties of $97,495 for the year ended June 30, 2008.

Subsequent Events

Subsequent to the fiscal year ended June 30, 2008, the Internal Revenue Service (IRS) refunded $41,186 of federal tax penalties to the Center The refunded penalties were in regards to the Center's late remittance of federal 941 payroll tax withholdings during the fiscal year ended June 30, 2008

On August 29, 2008, the Monroe County Building Commission entered into a 6 year loan agreement with the Bank of Monroe on behalf of the Center The loan was in the amount of $656,625, with an interest rate of 6 5% per annum.

Proceeds of the loan were used to obtain a release from a federal tax lien imposed by the Internal Revenue Service (IRS) on the Clinic's main facility in Union, WV, for failure to timely remit payroll withholdings, and consolidate the related party line of credit arrangement and the previously mentioned West Virginia Water Development Authority Loan. The Center will now make monthly payments to the Building Commission in the amount of $9,240, which includes the Center's $4,428 monthly payment previously disclosed in Note 12.

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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 Trustees
Monroe Health Center
Union, West Virginia

We have audited the basic financial statements of Monroe Health Center (the Center) as of and for the year ended June 30, 2008 and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 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 a combination of control deficiencies, that adversely affects the Center'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 Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 2008-1 through 2008-7

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center'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 weaknesses However, of the significant deficiencies described above, we consider items 2008-1, 2008-3 2008-6, 2008-7 to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-8 through 2008-10.

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

This report is intended solely for the information and use of the board of trustees, management, state and 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

Hayflich & Steinberg, CPA's, PLLC

HAYFLICH & STEINBERG, CPA'S, PLLC

January 21, 2009

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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 Trustees
Monroe Health Center
Union, West Virginia

Compliance

We have audited the compliance of the Monroe Health Center (Center) with the types of compliance requirement 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. The Center'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 the Center's management. Our responsibility is to express an opinion on the Center'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 the Center'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 the Center's compliance with those requirements.

In our opinion, the Center 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-8 through 2008-10

Internal Control Over Compliance

The management of the Center 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 the Center's internal control over compliance with the 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 the Center's internal control over compliance.

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

A *control deficiency* in an entity'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 entity'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 entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-8 through 2008-10 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-8 to be a material weakness.

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

This report is intended solely for the information and use of the board of trustees, management, state and 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

Hayflich & Steinberg, CPA's, PLLC

HAYFLICH & STEINBERG, CPA'S, PLLC

January 21, 2009

MONROE HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor /Program Title	Federal CFDA Number	Project/ Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Community Health Center	93 224	5 H80CS00384-06-00	$ 831,781
Community Health Center	93 224	6 H80CS00384-07-00	583,085
TOTAL COMMUNITY HEALTH CENTER			1,414,866
Passed through the National Association of County and City Health Officials (NACCHO):			
Medical Reserve Corps Small Grant Progra	93 008	MRC 08 0299	5,000
Passed through the State of West Virginia Department of Health and Human Resources:			
Family Planning Services	93 217	FP08 2055	21,566
Breast and Cervical Cancer Screening	93 919	BC08 1028	7,228
Total U.S. Department of Health and Human Services			1,448,660
Total Expenditures of Federal Awards			$1,448,660

Notes to Schedule of Expenditures of Federal Awards

Note 1: Significant Accounting Policies - The above schedule of expenditures of federal awards is a summary of the activity of the Center's federal grant activity presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and is presented in accordance with requirements of OMB Circular A-133.

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	Prior Year Financial Statement Findings & Current Year Status
2007 - 1	Bank Reconciliations - Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. Current year status - Partially resolved. See current year finding 2008 – 1.
2007 - 2	General Ledger Account Reconciliations - Monthly analyses and reconciliations of control accounts are not formally prepared. Control accounts are not being reconciled with details every month and year-end analyses reveal errors that have existed for months. In addition, the fixed asset schedule did not include current and prior year asset additions, nor did it include the correct amount of depreciation for the fiscal year Current year status - Partially resolved. See current year finding 2008 – 2
2007 - 3	Management Qualifications - Certain employees or management lack the qualifications and training to fulfill their assigned functions Management responsible for the accounting and reporting function lack the skills and knowledge to apply Generally Accepted Accounting Principles in recording transactions or preparing the financial statements Current year status - Partially resolved. See current year finding 2008 – 3
2007 - 4	Management Override of Controls – See related prior year finding item 2007 – 12

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	Prior Year Financial Statement Findings & Current Year Status
2007 - 5	Segregation of Duties - The limited number of office personnel within the Center's office prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure Current year status – Partially resolved See current year finding 2008 - 5
2007 - 6	Accounts Payable - Cut-off procedures performed indicate that unrecorded liabilities of $66,150 were not properly recorded as of June 30, 2007 Current year status – Resolved.
2007 - 7	Payroll Withholdings – Federal and State - The Center's federal 941 taxes for the months of March, May and June and West Virginia State withholding for the months of February through June were not timely remitted. Current year status – Partially resolved. See current year finding 2008 – 6.
2007 - 8	Retirement Contributions - The Center withheld PERS from employees' wages, but did not remit the employee or employer share to PERS in a timely manner The April and May remittances were submitted in July, 2007 and the June remittance was submitted in September, 2007 Current year status – Partially resolved See current year finding 2008 – 7

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	**Federal Award Findings, Questioned Costs, & Current Year Status**
2007 - 9	Payroll Procedures - We reviewed individual employee payroll cash disbursements for the fiscal year ended June 30, 2007 and noted the following: • Payroll personnel files were missing required documentation • The Center had inadequate documentation of employee pay increases Federal Program - U S. Department of Health and Human Services Community Health Centers CFDA Number - 93 224 Questioned Costs - Unknown Current year status – Resolved.

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	**Federal Award Findings, Questioned Costs, & Current Year Status**
2007 - 10	Sliding Fee Scale - We reviewed individual patient billings for the fiscal year ended June 30, 2007 and noted the following: • Per the Center's adopted sliding fee scale, patients with income levels of 200% or greater than Federal poverty guidelines paid a maximum of $25 per visit Federal Program - U S. Department of Health and Human Services Community Health Centers CFDA Number – 93 224 Questioned Costs - Unknown Current year status – Partially resolved. See current year finding 2008 – 8

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	Federal Award Findings, Questioned Costs, & Current Year Status
2007 - 11	Inventory Management - Upon inquiry and review it came to our attention that the Center has no formal or informal method of monitoring inventory levels at its affiliated pharmacies in Union and Peterstown
	Federal Program - U S. Department of Health and Human Services Community Health Centers
	CFDA Number – 93.224
	Questioned Costs - Unknown
	Current year status – Partially resolved See current year finding 2008 – 9.

MONROE HEALTH CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Item Number	**Federal Award Findings, Questioned Costs, & Current Year Status**
2007 - 12	Management Override of Internal Controls - Our testing revealed that a certain member of the Center's management circumvented the Center's controls over purchasing by authorizing the payment of invoices without corresponding purchase orders Federal Program - U S Department of Health and Human Services Community Health Centers CFDA Number – 93.224 Questioned Costs - Unknown Current year status – Partially resolved See current year finding 2008 – 10.

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualifed Opinion

Internal control over financial reporting:
- Material weakness(es) identified? X yes ___ no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes ___ none reported

Noncompliance material to financial statements noted? X yes ___ no

FEDERAL AWARDS

Internal control over major programs:
- Material weakness(es) identified? X yes ___ no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes ___ none reported

Type of auditors' report issued on compliance for major programs: Unqualifed Opinion

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? X yes ___ no

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Consolidated Health Centers Program	93.224

Dollar threshold used to distinguish between Type A and Type B Programs: $300,000

Auditee qualifed as a low-risk auditee? ___ yes X no

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS SECTION

2008 – 1 Bank Reconciliations

Criteria: The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, a reconciliation should be performed monthly of the Center's bank accounts

Condition: Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls.

Cause: Former management did not observe the importance of timely preparing bank reconciliations.

Effect: Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind

Recommendation: We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

Management response:

Agree: Effective with the management transition in January 2008, all bank statements are reconciled monthly and timely *within 3 days of receipt of the statements from the bank. Statements are reconciled by the accounting clerk and are reviewed and signed off on prior to the month end close by Valerie Cowley of Herman & Cormany, CPAs There is not an issue with un-reconciled accounts currently or at the time of the audit at 6.30 08 Current management places extremely high importance on this function*

2008 – 2 General Ledger Account Reconciliations

Criteria: The overall goal of effective internal controls is to demonstrate accountability, stewardship and provide reliable financial data for financial reporting purposes.

Condition: Monthly analyses and detailed reconciliations of control accounts were not formally prepared for the first six months of the fiscal year

Cause: Former management did not observe the importance of monthly closing procedures and underestimated the importance of the reconciliation process.

Effect: Not reconciling the control accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis

Recommendation: We recommend that the Center continue to perform and enforce its monthly closing procedures, as implemented during the fiscal year

Management response:

Agree: Effective with the management transition in January 2008, all balance sheet accounts and revenue accounts have detailed reconciliations prepared *during the month end closing process A notebook is maintained for the year and is available for the year end audit to assist the auditors in reviewing the activity. All expense accounts are reviewed in detail monthly and corrections are made when necessary Current management places extremely high importance on this function*

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 3 Management Qualifications

Criteria: The management of the Center is responsible for establishing and maintaining adequate internal controls over financial reporting.

Condition: Certain former employees or management lacked the qualifications and training to fulfill their assigned functions Management responsible for the accounting and reporting function lacked the skills and knowledge to apply Generally Accepted Accounting Principles in recording transactions or preparing the financial statements

Cause: Personnel policies and procedures had not been adequately adopted and implemented

Effect: The Center may be unable to produce timely and accurate financial information

Recommendation: Though this finding does not reflect on current management, we recommend that the Center's Board of Trustees continue to be actively involved in the hiring and ongoing evaluation process of key financial reporting personnel.

Management response:

Agree: Current management has taken the necessary steps to establish and maintain adequate internal controls over financial reporting *effective with the management transition in January 2008 Financial personnel and outside professionals that are well trained in the accounting functions and segregation of duties are working together to produce timely and accurate financial information The staff is very conscientious in keeping management and the Board of Trustees informed of the Center's financial "health" Financial statements and other relevant information are prepared and provided for the Board of Trustees monthly before the 15th of the month. The Health Center has Herman & Cormany, CPAs retained for daily consultation and extensive detailed work during the month end closing process. Current management places extremely high importance on producing timely and accurate financial information*

2008 – 4 Management Override of Controls
See related finding at 2008 – 10

2008 – 5 Segregation of Duties

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: The limited number of office personnel within the Center's office prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure.

Cause: Management failed to designate a plan to segregate the duties of accounting personnel after a workforce reduction.

Effect: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: Though the Center's segregation of duties has been improved by an outsourcing of the controller function to an outside accounting firm, we recommend management continue to address the inadequate segregation of duties still present.

Management's response:

Agree: Effective with the management transition in January 2008, current management believes that it has adequate internal controls in place within the accounting department and the personnel to enforce these controls. *Accounting functions are segregated with distinct and separate personnel opening the mail, making the bank deposits, keying the receipts, recording the transactions, keying approved invoices, processing the payroll, check signing, and preparing bank and other account reconciliations. The accounting personnel maintain a close working relationship with other department heads within the Health Center and as well as the Director and Board of Trustees so that informed decisions are made. Herman & Cormany, CPAs also assist in this segregation of duties through the preparation and review of the Center's financial information as well as being available to answer questions and provide guidance on a daily basis.*

2008 – 6 Payroll Withholdings - Federal and State

Criteria: Employer's are required to deposit 100% of their tax liability on or before the deposit due date.

Condition: The Center's federal 941 taxes and West Virginia State withholdings were not timely remitted for the first half of the fiscal year.

Cause: Former management chose to pay other expenditures in lieu of required withholdings.

Effect: If federal income, social security, and Medicare taxes that must be withheld are not withheld or are not deposited or paid to the United States Treasury, the trust fund recovery penalty may apply. The penalty is the full amount of the unpaid trust fund tax. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to be responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so.

The failure of the Center to remit the appropriate West Virginia payroll taxes in a timely manner can result in penalties and interest from the state tax department, as well as penalties provided by law under West Virginia Code Chapter 11, Article 9, Sections 4 and 5

Recommendation: We recommend that the Center properly remit all payroll taxes by the due dates.

Management's response:

Agree: *Current management immediately (January 2008) informed the Board of Trustees and the IRS of the Center's past due 941 taxes and WV State Withholding. Management has effectively worked with the IRS to pay the past due taxes and has not had one late deposit on current taxes from January 2008 to present. The WV State Withholding taxes were brought up to date within four months (prior to the year end June 30, 2008) and are consistently paid timely. Management has made certain that the Board of Trustees is well aware of the significant financial and personal repercussions of late payment of withholding taxes. Management and Herman & Cormany, CPAs have worked diligently and* ***successfully*** *to recoup penalties assessed due to the poor financial management of the prior Director and CFO.* ***Current management places extremely high importance on timely payment of all tax obligations.***

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 7 Retirement Contributions

Criteria: West Virginia Code §5-10-29 and §5-10-31 requires each member of the Public Employees Retirement System (PERS) to contribute 4.5% of his or her gross salary and each employer contribute 10.5% of the gross salary for each of its employees into the Public Employees Retirement System. These contributions are due to the Consolidated Public Retirement Board no later than five days following the end of each calendar month.

Condition: The Center withheld PERS from employees' wages, but did not remit the employee or employer share to PERS in a timely manner, for the first six months of the fiscal year.

Cause: Former management chose to pay other expenditures in lieu of remitting required contributions

Effect: The failure of the Center to properly remit retirement contributions to PERS may subject the Center to penalties and charges

Recommendation: We recommend that the Center properly remit all retirement contributions by the due dates.

Management's response:

Agree: *Current management immediately (January 2008) informed the Board of Trustees of the past due retirement contributions owed to the State of WV. The retirement contributions were brought up to date within four months and have been paid timely since April, 2008 to present. Contributions are due to the state no later than 15 days following the end of the calendar month. Management has made certain that the Board of Trustees is well aware of the significant financial repercussions of late payment of retirement benefits.* ***Current management places extremely high importance on timely payment of all employee benefit obligations.***

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTIONS

2008 – 8 Sliding Fee Scale

Federal Program Information:	CFDA Number
U.S. Department of Health and Human Services	
Community Health Centers	93.224

Criteria: The management of the Center is responsible for establishing and maintaining internal controls that provide reasonable assurance that patient billing amounts are accurate. Section 42-51c 303(f) of the Code of Federal Regulations, states that patients with income of 200% or greater of the Federal poverty guidelines are to receive no discount. It is also the responsibility of the Center's management to enforce existing internal control policies and procedures regarding patient income verification and eligibility to receive the aforementioned discount.

Condition: We reviewed individual patient files and billings for the fiscal year ended June 30, 2008 and noted the following:

- Per the Center's adopted sliding fee scale used prior to January of 2008, patients with income levels of 200% or greater than Federal poverty guidelines paid a maximum of $25 per visit.
- Test results revealed patients without adequate income verification in their files.

Questioned costs: Unknown.

Context: Total gross patient revenue for the fiscal year ended June 30, 2008 was $3,343,193.

Cause: The Center had inadequate policies and procedures in place for the approval of patient billings scales and fails to enforce existing policies and procedures in place to document patient income verification used to apply the sliding fee scale.

Effect: The Center may not be billing patients in accordance with federal regulations, resulting in lost revenue.

Recommendation: We recommend that the Center review its sliding fee scale annually. In addition, we recommend that the Center's management enforce existing policies and procedures requiring updated patient income verification to be documented, photocopied, and maintained within the patient files of all patients for which the sliding fee scale has been applied to any portion of their billing.

Management response:

Agree: Management is currently in the process of establishing internal control procedures for complying with the appropriate documentation of patient income. *Policies are being revised and the importance has been stressed to supervisory personnel regarding the documentation necessary to be filed in the patient records. Management will implement procedures for monitoring patient records through regular QI meetings throughout the year.*

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 9 Inventory Management

Federal Program Information:	CFDA Number
U S Department of Health and Human Services	
Community Health Centers	93 224

Criteria: The management of the Center is responsible for establishing and maintaining internal controls that safeguard the Center's inventory and promote accurate financial reporting of inventory balances

Condition: Upon inquiry and review it came to our attention that the Center has no formal or informal method of monitoring inventory levels at its affiliated pharmacies in Union, Peterstown, and Craig County.

Questioned costs: Unknown.

Context: Total inventory balance for all Center affiliates as of June 30, 2008 was $46,173.

Cause: The Center has inadequate policies and procedures in place related to inventory maintained at affiliated pharmacies.

Effect: The Center may not have an accurate quantity and description of its physical inventories at the affiliated locations.

Recommendation: We recommend that the Center develop, document, and enforce formal policies and procedures to monitor its inventory at all affiliated pharmacies.

Management response:

Agree: Management is currently in the process of establishing internal control procedures for the safeguarding of inventories and accurate financial reporting. *Certain controls are already in place such as the requisition and purchasing procedures and are followed by appropriate personnel Management will further expand upon these procedures by establishing and implementing procedures for monitoring inventory levels and setting dates for physical counts and a formal reporting format. Current management places extremely high importance on this function.*

MONROE HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

2008 – 10 Management Override of Internal Controls

Federal Program Information:	CFDA Number
U.S Department of Health and Human Services	
Community Health Centers	93.224

Criteria: The Center's management is primarily responsible for the design, implementation, and maintenance of internal controls and such controls are always exposed to the danger of management override of controls.

Condition: Our testing revealed that the Center's management and Board of Trustees did not adhere to existing policies and procedures set forth regarding a competitive bid process for purchases and contracts over $25,000.

Questioned costs: Unknown

Context: The Center's total bid contracts for the year ended June 30, 2008 were $58,500.

Cause: A contract was approved by the Board of Trustees and awarded to a company without obtaining bids from one or more additional companies who provide similar products and services.

Effect: Otherwise effective internal controls cannot be relied upon to prevent, detect, or deter fraudulent financial reporting perpetrated by senior management

Recommendation: We recommend that the Center's Board of Trustees allow for a competitive bidding process for all purchases and contracts above the dollar amount specified by the Center's formal bidding policy.

Management response:

Agree: *While it is* ***not*** *the case with current management, we are aware after the fact that prior management (prior to January 2008) did not observe or comply with existing policies and procedures regarding the competitive bid process for purchases and contracts over $25,000* ***Current management can be and has proven to be relied on to ensure that the existing policies and procedures are followed and that the Board of Trustees is kept informed.*** *Note The dollar figure or materiality of the offense noted in 2008-10 was not disclosed in context to the Center's total expenses of $4,450,849 for the year*