St. George Medical Clinic, Inc.

March 16, 2009

Damon Iarossi,
Department of Health and Human Resources
Office of Accountability and Management Reporting
1900 Kanawaha Blvd, East Building 3 Room 550
Charleston, WV 25305-3716

Subject: Audited Financial Statement
Fiscal Year Ending June 30, 2008

Dear Mr. Iarossi,

Enclosed you will find St. George Medical Clinic Inc's audited financial statement for the fiscal year ending June 30, 2008

If you have any questions, please contact me at the address below or by calling (304) 432-8211

Sincerely,

Joe Tuttle,
Interim Executive Director

MAR 19 2009

Rt. 1, Box 208, St. George, West Virginia 26287, Phone: 304-478-3339, Fax: 304-478-3311

ST. GEORGE MEDICAL CLINIC, INC.

Financial and Compliance Report June 30, 2008

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
St. George Medical Clinic, Inc.
St George, West Virginia

We have audited the accompanying balance sheets of St. George Medical Clinic, Inc., as of June 30, 2008 and 2007, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of St. George Medical Clinic, Inc.'s management Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of St. George Medical Clinic, Inc. as of June 30, 2008 and 2007 and the results of its operations, changes in net assets, and 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 March 3, 2009, on our consideration of St. George Medical Clinic, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2008. We issued a similar report for the year ended June 30, 2007, dated November 27, 2007, which has not been included with the 2008 financial statements. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit of each year

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of state awards for the year ended June 30, 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

ARNETT & FOSTER, P.L.L.C.

Arnett & Foster, PLLC

Charleston, West Virginia
March 3, 2009

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ST. GEORGE MEDICAL CLINIC, INC.

BALANCE SHEETS
June 30, 2008 and 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents	**$ 80,718**	$ 104,253
Patient accounts receivables, net	**66,455**	79,302
Estimated third-party payor settlements	**3,500**	3,726
Grants receivable	**-**	46,050
Inventories, at cost	**17,291**	19,762
Total current assets	**167,964**	253,093
Fixed Assets		
Property, plant and equipment	**803,075**	963,348
Less accumulated depreciation	**486,059**	551,562
	317,016	411,786
Total assets	**$ 484,980**	$ 664,879

LIABILITIES AND NET ASSETS	2008	2007
Current Liabilities		
Current maturities of long-term debt	**$ 38,529**	$ 21,986
Accounts payable and accrued expenses	**34,175**	29,072
Accrued retirement benefits	**1,902**	5,624
Employee compensation and payroll taxes payable	**57,455**	62,524
Total current liabilities	**132,061**	119,206
Long-term debt, net of current maturities	**153,220**	301,303
Total liabilities	**285,281**	420,509
Unrestricted net assets	**199,699**	244,370
Total liabilities and net assets	**$ 484,980**	$ 664,879

See Notes to Financial Statements

ST. GEORGE MEDICAL CLINIC, INC.

STATEMENTS OF OPERATIONS
Years Ended June 30, 2008 and 2007

	2008	2007
Revenues:		
Net patient service revenue	$ **648,959**	$ 655,050
Federal grant income	**389,513**	397,501
State grant income	**168,920**	176,291
Wellness Center revenue	**6,635**	29,977
Interest income	**671**	417
Other revenue	**6,420**	5,217
Total revenues	**1,221,118**	1,264,453
Expenses:		
Salaries and wages	**671,015**	805,930
Employee benefits	**152,976**	117,947
Payroll taxes	**62,259**	53,136
Medicine	**115,678**	79,741
Insurance	**22,509**	20,000
Contract labor	**48,316**	18,872
Medical supplies	**20,924**	17,132
Supplies	**11,799**	19,146
Phone and utilities	**24,267**	30,089
Depreciation	**39,711**	52,811
Interest	**18,630**	20,070
Professional fees	**41,116**	31,532
Repairs and maintenance	**3,267**	6,970
Minor equipment rental expense	**8,278**	6,575
Laboratory fees	**19,217**	35,942
Other	**78,318**	71,706
Total expenses	**1,338,280**	1,387,599
(Deficiency) of revenues over expenses before gain on sale of assets	**(117,162)**	(123,146)
Gain on sale of assets	**72,491**	-
(Deficiency) of revenues over expenses	$ **(44,671)**	$ (123,146)

See Notes to Financial Statements

ST. GEORGE MEDICAL CLINIC, INC.

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended June 30, 2008 and 2007

	2008	2007
Unrestricted Net Assets, beginning	**$ 244,370**	$ 367,516
(Deficiency) of revenues over expenses	**(44,671)**	(123,146)
Unrestricted Net Assets, ending	**$ 199,699**	$ 244,370

See Notes to Financial Statements

ST. GEORGE MEDICAL CLINIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Change in net assets	$ (44,671)	$ (123,146)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	39,711	52,811
Gain on sale of assets	(72,491)	
Decrease in patient receivables	12,847	2,132
(Increase) decrease in grants receivable	46,050	(29,808)
Decrease in third-party payor settlements	226	6,774
(Increase) decrease in inventory	2,471	(7,674)
Increase (decrease) in accounts payable and accrued expenses	5,103	(37,157)
Increase (decrease) in employee compensation and payroll taxes payable	(5,069)	6,176
Increase (decrease) in retirement benefits	(3,722)	427
(Decrease) in due to patient-pharmaceuticals	-	(1,150)
Net cash (used in) operating activities	(19,545)	(130,615)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(2,450)	(5,869)
Proceeds from sale of property and equipment	130,000	-
Net cash (used in) investing activities	127,550	(5,869)
Cash Flows from Financing Activities		
Proceeds from long-term debt	1,481	325,000
Principal payments on long-term debt	(133,021)	(1,711)
Payments on FHLB loan	-	(64,808)
Net payments on line of credit	-	(37,280)
Net cash provided by (used in) financing activities	(131,540)	221,201
Net increase (decrease) in cash and cash equivalents	(23,535)	84,717
Cash and cash equivalents, beginning of year	104,253	19,536
Cash and cash equivalents, end of year	$ 80,718	$ 104,253
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 18,630	$ 20,070

See Notes to Financial Statements

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: St. George Medical Clinic, Inc (Clinic) is a rural health care clinic providing medical services to the residents of Tucker County and the surrounding areas in West Virginia. In conjunction with providing medical services, the Clinic also provides other preventative health services to these residents.

A summary of significant accounts policies follows:

Uses 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, 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 those assumed in determining the allowance for uncollectible accounts because of the uncertainty in estimating the amounts that will ultimately be collected. It is at least reasonably possible that the significant estimates used will change within the next year.

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

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts, if any, represent those net assets which the Clinic has set aside for a particular purpose.

Temporarily restricted – Resources subject to donor imposed restrictions which will be satisfied by actions of the Clinic or passage of time. There were no temporarily restricted net assets at June 30, 2008

Permanently restricted – Resources subject to donor imposed restrictions that they be maintained permanently by the Clinic. There were no permanently restricted net assets at June 30, 2008.

The Clinic has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net assets class.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Method of accounting: The Clinic follows the accrual basis of accounting and accounting principles generally accepted in the United States of America for financial reporting purposes.

Funding and revenue recognition: Funding for general operations of the Clinic for the year ended June 30, 2008 was obtained from patient fees generated by providing medical services and grants from the U.S. Department of Health and Human Services and the West Virginia Department of Health and Human Resources. The grant periods varied with each individual grant.

Grant revenue resulting from exchange transactions is recognized when the related costs are incurred except for the Rural Health Initiative Grant, which is recognized ratably over the grant period. Patient service revenue is recorded at standard billing rates when the services are rendered with contractual adjustments and sliding fee adjustments deducted to arrive at net patient service revenue.

Medicare and Medicaid patient services: Payments for covered Federally Qualified Health Clinic (FQHC) services furnished to Medicare and Medicaid patients are made by means of an all-inclusive rate for each visit. FQHC services are reimbursed based on allowable costs, regardless of the charges made for the FQHC services. Allowable FQHC costs are divided by total visits for FQHC services to calculate a cost per visit, which is then compared to the federal payment limit per FQHC visit. At cost report settlement, the FQHC is paid the lower of its actual cost per visit or the federal payment limit per visit. Revenues are not used in the cost report settlement process.

Charity care: The Clinic provides care to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because the Clinic does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Cash and cash equivalents: For purposes of reporting the statement of cash flows, the Clinic considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Clinic maintains its cash accounts primarily with banks located in West Virginia. The total cash balances are insured by the FDIC up to $100,000 per bank The Clinic has cash balances on deposit with two West Virginia banks at June 30, 2008 that exceeded the balance insured by the FDIC by approximately $239,000.

Accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Inventories: Inventories consist principally of prescription drugs purchased for use in the operations of the Clinic and those donated for specific use of patients and are stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market. Samples which are donated to the Clinic and given to patients free of charge are not included in inventories. Prescription drugs which are donated to and held for specific patients are reported as inventory with a corresponding liability account due to patients.

Property and equipment: Expenditures for the acquisition of property and equipment are capitalized at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years.

Contributions of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Clinic reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Clinic's activities).

Income taxes: The Clinic, which is not classified as a private foundation, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is recognized as exempt from income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and similar sections of state statutes.

Reimbursement agreements: Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are recognized on an estimated basis in the period the

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

related services are rendered when they can be reasonably estimated and adjusted in future periods as final settlements are determined.

Advertising expense: The Clinic expenses advertising as it is incurred Advertising expense was $6,283 and $2,927 for the years ended June 30, 2008 and 2007.

Note 2. Inventories

Inventories at June 30, 2008 and 2007 are as follows:

	2008	2007
Inventory purchased	$ 17,291	$ 19,762

Note 3. Property and Equipment

A summary of land, buildings and equipment is as follows:

	2008	2007
Land	$ 3,000	$ 3,000
Building and improvements	542,001	648,610
Furniture and equipment	237,232	290,896
Vehicles	20,842	20,842
	803,075	963,348
Less accumulated depreciation	486,059	551,562
	$ 317,016	$ 411,786

Certain of the Clinic's property and equipment was acquired with grant funds and may be required to be returned to the grantor agencies upon termination of the grant or when the Clinic ceases doing business.

Note 4. Long-term Debt

	2008	2007
Note payable, vendor, due in monthly installments of $55, including interest at 14 99%, secured by equipment	$ 1,007	-
Loan payable, bank, due in monthly installments of $3,988 including interest at a variable rate of (5% at June 30, 2008), secured by land, building and improvements, furniture, equipment and inventory	190,742	323,289
	$ 191,749	$ 323,289

Maturities of debt obligations at June 30, 2008, are as follows:

Year ending June 30	
2009	$ 38,529
2010	40,378
2011	41,964
2012	44,111
2013	26,767
Thereafter	-
	$ 191,749

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Economic Dependency and Concentrations of Credit Risk

Patient service revenue that the Clinic generates is primarily limited to services provided to residents of St. George and the surrounding communities. General economic conditions in the area can significantly influence the Clinic's ability to collect fees for services rendered.

The Clinic grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A substantial portion of the Clinic's revenues are for services provided to Medicaid, Medicare and West Virginia Public Employees Insurance Agency beneficiaries of the State of West Virginia. Payment for these services is dependent upon adequate funding by State and Federal governments and sufficient state and Federal revenues. The mix of gross receivables as of June 30, 2008 and 2007 is as follows:

	2008	2007
Medicare	**13%**	19%
Medicaid	**17%**	11%
Other third-party payors	**26%**	43%
Private pay	**44%**	27%
	100%	100%

Further, a substantial portion of the Clinic's revenues are generated through grants received from various organizations. Curtailment of grant funding by the grantor agencies could have a significant effect on the operations of the Clinic

Note 6. Patient Receivables and Net Patient Service Revenues

Patient receivables are recorded at the net amount expected to be collected. A summary of the gross and net patient receivables at June 30 is as follows:

	2008	2007
Patient receivables, gross	**$ 129,237**	$ 142,784
Less allowances for contractual adjustments, bad debts and charity care	**62,782**	63,482
Patient receivables, net	**$ 66,455**	$ 79,302

Net patient service revenue consists of the following:

Patient service revenues	**$ 956,350**	$ 1,089,806
Less contractual adjustments	**307,391**	434,756
	$ 648,959	$ 655,050

Note 7. Commitments and Contingencies

The Clinic's health professionals are covered by the Federal Tort Claims Act and therefore, no professional liability insurance is necessary. Pursuant to Section 224 of the Public Health Service Act, 42 USC 233, the Federal Tort Claims Act covers alleged negligent medical care during the performance of official duties for Community Health Centers funded under Section 330 of the PHS Act. Under the Federal Tort Claims Act, the U.S. Government consented to be sued for any damage to property or for personal injury or death caused by the negligence or wrongful act or omission of Federal employees who were acting within the scope of their employment.

The Clinic's Directors are covered by professional liability insurance on a claims made basis. Policy limits have provided per occurrence coverage up to $1,000,000 with an aggregate limit of $5,000,000. No losses in excess of the per occurrence or aggregate limits have been asserted, and management does not believe any current actions will exceed coverage amounts.

Note 8. Pension Expense

The Clinic has a discretionary defined contribution retirement plan (the Plan) covering substantially all its employees. The Clinic's Board of Directors determines annually the percentage the Clinic will contribute to the employee's personal retirement accounts. The contribution was 7.5% of gross wages for 2008 and 2007. Participants are 100% vested in the Clinic's contributions after five years. Pension expense for the year ended June 30, 2008 and 2007 was $42,845 and $39,956, respectively.

Note 9. Classification of Expenses

Operating expenses by functional category at June 30, 2008 and 2007 are as follows:

	2008	2007
Program services	$ 905,780	$ 1,003,789
General and administrative	432,500	383,810
	$ 1,338,280	$ 1,387,599

Note 10. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by health care providers. 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 Clinic is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Clinic is found in violation of these laws, the Clinic could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs

Note 11. Deficiency of Revenues Over Expenses and Subsequent Event

The Clinic incurred a deficiency of revenues over expenses of $44,671 (after gain on sale of Wellness Center of $72,491) and $123,146 for the years ended June 30, 2008 and 2007, respectively. Management plans to restore the Clinic to profitable operations by eliminating unnecessary expenses, hiring additional medical providers to increase revenues, increasing available lines of credit to ensure funds are available for short term operation requirements and applying for additional Federal and state grants.

ST. GEORGE MEDICAL CLINIC, INC.
SUPPLEMENTARY INFORMATION

SCHEDULE OF STATE AWARDS
Year Ended June 30, 2008

Grant Name	Grant Number	Award Amount	Revenue Recognized	Expenditures
West Virginia Department of Health and Human Resources, Bureau for Public Health, Office of Community and Rural Health Services				
Primary Care				
Uncompensated Care Grant	G080310	$ 152,492	$ 152,492	$ 152,492
Mortgage Finance Grant	G080364	13,000	13,000	13,000
Recruitment and Retention Community Project Grant	G080696	3,428	3,428	3,428
		$ 168,920	$ 168,920	$ 168,920

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

To the Board of Directors
St. George Medical Clinic, Inc.
St. George, West Virginia

We have audited the financial statements of St. George Medical Clinic, Inc as of and for the year ended June 30, 2008 and have issued our report thereon dated March 3, 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 St. George Medical Clinic, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of St. George Medical Clinic, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the St. George Medical Clinic Inc.'s internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We considered the deficiencies described in the accompanying schedule of findings and responses as items 08-01 through 08-03 to be significant deficiencies in internal control over financial reporting.

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 entity'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 08-01 through 08-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. George Medical Clinic, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, Federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties

ARNETT & FOSTER, P.L.L.C.

Arnett & Foster, P.L.L.C

Charleston, West Virginia
March 3, 2009

ST. GEORGE MEDICAL CLINIC, INC.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008

08-01 Monthly Reconciliation of Account Balances

Criteria or Specific Requirement

Subsidiary ledgers of accounts receivable and other general ledger accounts should be reconciled to the general ledger on a monthly basis.

Condition

Key general ledger accounts were not reconciled to supporting subsidiary records as necessary on a monthly, quarterly, or annual basis.

Effect

This condition resulted in the occurrence of potentially misstated interim financial statements and delays in producing financial data necessary for management to properly adjust year-end account balances and required management approved audit adjustments as a part of the annual audit process.

Recommendation

Account balances should be reconciled each month prior to the preparation of monthly financial statements to insure their accuracy and completeness. Key management and Board decisions require accurate interim financial information.

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan at page 16

08-02 Financial Statement Accuracy and Budget Preparation

Criteria or Specific Requirement

Interim and annual financial statements and budgets should be accurately prepared to reflect current and expected financial results.

Condition

During the year ended June 30, 2008, interim financial statements and annual budgets were not materially accurate representations of actual or expected financial results. In addition, the June 30, 2008 financial statements required several audit adjustments to reflect such statements in accordance with generally accepted accounting principles

Effect

The accuracy of management and Board financial analyses was compromised.

Recommendation

Interim and year end financial statements, budget and other financial analysis should be prepared by the Clinic's accounting personnel and reviewed by the Clinic's Chief Financial Officer (CFO) before being utilized for financial decisions. Such statements should include all adjustments to accurately reflect the financial position and results of operations of the entity

ST. GEORGE MEDICAL CLINIC, INC.

SCHEDULE OF FINDINGS AND RESPONSES (Continued)
Year Ended June 30, 2008

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan at page 16.

08-03 Accounts Receivable Reconciliation and Valuation

Criteria or Specific Requirement

A large percentage of the Clinic's assets relate to patient accounts receivables As such, the accounting and controls over this group of assets is imperative to accurate financial reporting. The accounts receivable subsidiary ledger should be reconciled to the general ledger on a monthly basis. Reconciling items should be identified on a timely basis and adjustments should be made as needed.

In addition, receivable balances should be recorded in the general ledger based on net expected collections from various payer sources (record gross receivable and a corresponding allowance account). Net expected collections may be estimated by review of prior payment histories, contracts with third-party payers, and the accounts receivable aging reports.

Condition

During the years ended June 30, 2008, the following were noted:

- The accounts receivable subsidiary ledger was not properly reconciled to the general ledger.
- The accounts receivable allowance calculation performed by the Clinic was not adequate to properly manage accounts receivable
- Past due accounts are not being regularly reviewed and written off in accordance with the Clinic's policy.
- Certain accounts receivable aging reports inaccurately age accounts

Effect

The accuracy of accounts receivable and net expected collections, as well as interim financial statements, may be limited

Recommendation

The accounts receivable subsidiary ledger should be reconciled to the general ledger each month prior to preparation of monthly financial statements to ensure their accuracy and completeness. Inaccuracies in aging reports should be investigated and corrected

Also, an analysis of current payment arrangements, payer history, payer status, and aging of accounts should be prepared The results of this analysis should be applied to the gross amount due for payer claims so the accounts receivable balance is recorded at their net expected collectable balance. The allowance for doubtful accounts should be adjusted monthly so that accounts receivable is properly reflected in interim financial statements.

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan at page 16.

ST. GEORGE MEDICAL CLINIC, INC.

Auditee's Corrective Action Plan
June 30, 2008

ST. GEORGE MEDICAL CLINIC, INC.

AUDITEE CORRECTIVE ACTION PLAN
June 30, 2008

St. George Medical Clinic, Inc.

Arnett & Foster P.LLC
Attn: Lisa Simon
P.O. Box 2629
Charleston, WV 25329

Corrective Active Plan
Fiscal Year 2008

08-01 Monthly Reconciliation of Account Balances

Management View and Corrective Action

Our CFO has been reconciling all cash accounts throughout the FY2008. The CFO and the Biller/Coder have been working collaboratively to reconcile A/R statements in both the QuickBooks and Mountainside accounting systems. The A/R statements produced in the Mountainside software were not being reconciled prior to patient statements being mailed, which did not account for third party payments and resulted in a misstated A/R balance to the patient.

Under current management, all general ledger accounts including A/R, A/P, vendors, cash, and liability accounts are being reconciled monthly prior to the completion of monthly financial statements. Management has hired a third party accounting firm to handle the reconciliation of the cash accounts, processing of payroll, and reconciliation of A/R for the outsourced pharmacy requirements. The CFO and CEO currently reconcile the A/R and A/P and all other ledger accounts on a monthly basis prior to financials being released to the Federal and State grant agencies and the Board of Directors

08-02 Financial Statement Accuracy and Budget Preparation

Management View and Corrective Action

Interim and year end financial statements were prepared by the clinics CFO with the aid of key accounting personnel supplied documentation for review. The CFO prepared the fiscal year budget with the aid of the Board's finance committee. For the FY2008, the budget was prepared by the interim CEO, who was a physician of the clinic with limited accounting knowledge. To correct this issue, the FY2009 has been prepared by the CEO of the clinic, with much input from the Board's finance committee, which consists of members with vast knowledge of budgetary creation and forecasting. Furthermore, the Board and the CEO/CFO have worked collaboratively to create viewer-friendly financials that reflect the financial condition at the specified time. Monthly reconciliation on all vendor accounts, payable accounts, accounts receivable, bank statements, and liability

Rt. 1. Box 208, St. George, West Virginia 26287, Phone: 304-478-3339 Fax: 304-478-3311

accounts are reconciled monthly by the CFO and the CEO prior to the creation of the monthly financial statements supplied to the Federal and State grant agencies and the Board of Directors. The need for journal entries and adjustments has been minimized with the implementation of this process.

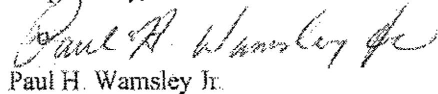
08-03 Action Receivable Reconciliation and Valuation

Management View and Corrective Action

St. George Medical Clinic used QuickBooks and Mountainside software for our general and subsidiary accounts receivable. At the time of this audit, the Biller/Coder processed the accounts receivable in the Mountainside software, and the CFO/CEO managed the accounts receivable in the QuickBooks system. Reconciliation was preformed monthly on the QuickBooks system; however, the QuickBooks system was never reconciled to the Mountainside accounting system, which resulted in inaccurate and inadequate financials being supplied to Federal and State grant agencies and Board members. Also, management has recognized that the accounts receivable ledger was never reconciled each month prior to the patient statements being processed and mailed. Management has recognized this as a weakness, and has currently implemented a process in which the Biller/Coder and the CFO before and statements are processed. Furthermore, collection processes have been implemented to strengthen collection efforts of patient accounts over sixty days old. It is the current management's priority to have all patient accounts zeroed out before the patient account hits ninety (90) days old. Management understands there will be accounts for financial needy patients that will be uncollectible. Management will implement its bad debt write off policy to accurately account for these uncompensated care patients.

To conclude, it is management's opinion that with these corrective methods implemented and enforced, the Federal and State grant agencies as will as the Board will receive accurate financials reflecting reconciled balances in accounts receivable on a monthly basis.

Respectfully,



Paul H. Wamsley Jr.

cc: jas