



Shenandoah Valley Medical System, Inc.

Adult, Child & Adolescent Health; Obstetrics, Gynecology, Midwifery;
Behavioral Health; WIC; Farmworker Health; and Laboratory Services

December 18, 2009

WV Dept of Health & Human Resources
Office of Accountability & Management Reporting
Div of Compliance & Monitoring
1900 Kanawha Blvd. East
Capitol Complex, Bldg. 3, Room 550
Charleston, WV 25305

To whom it may concern:

Enclosed you'll find our A-133 audit for FYE 3/31/09. We had delays getting it done this year, but expect to get it to you promptly in future years.

Sincerely,

Carol Pitts
Comptroller

Enclosure

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**SHENANDOAH VALLEY
MEDICAL SYSTEM, INC. AND
AFFILIATE**

**CONSOLIDATED FINANCIAL
STATEMENTS AND
ACCOMPANYING INFORMATION**

**(With Independent Auditors'
Reports Thereon)**

March 31, 2009 and 2008

DHHR - Finance

DEC 22 2009

Date Received

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Schedule of Expenditures of Federal Awards	17
Note to Schedule of Expenditures of Federal Awards	18
Schedule of Non-Federal Awards	19
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	20
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	22
Schedule of Findings and Questioned Costs	24



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Shenandoah Valley Medical System, Inc.
Martinsburg, West Virginia

We have audited the accompanying consolidated balance sheets of Shenandoah Valley Medical System, Inc. ("Organization") as of March 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Valley Medical System, Inc. as of March 31, 2009 and 2008, and the change in its 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 November 23, 2009 on our consideration of Shenandoah Valley Medical System, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters

Shenandoah Valley Medical System, Inc.
Page Two

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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Shenandoah Valley Medical System, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended March 31, 2009 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 accompanying schedule of non-federal awards for the year ended March 31, 2009 is presented for purposes of additional information 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.

Dixon Hughes PLLC

*Morgantown, West Virginia
November 23, 2009*

DHHR - Finance

DEC 22 2009

Date Received

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 1,880,926	\$ 1,212,826
Internally designated for debt service	73,729	72,559
Patient receivables, net	984,092	1,222,804
Grants receivable	64,655	111,200
Due from third-party payers	422,877	59,503
Other current assets	<u>175,115</u>	<u>182,746</u>
Total current assets	<u>3,601,394</u>	<u>2,861,638</u>
Assets limited as to use:		
Internally designated for capital acquisitions	<u>543,738</u>	<u>527,987</u>
Property and equipment, at cost:		
Land and land improvements	763,639	759,249
Buildings and building improvements	8,034,898	8,027,542
Equipment	3,268,090	3,153,736
Vehicles	307,670	312,426
Leasehold improvements	<u>43,222</u>	<u>232,336</u>
	12,417,519	12,485,289
Less accumulated depreciation	<u>3,884,574</u>	<u>3,432,473</u>
	8,532,945	9,042,816
Construction in progress	4,300	-
Property and equipment, net	<u>8,537,245</u>	<u>9,052,816</u>
Total assets	<u>\$12,682,377</u>	<u>\$12,442,441</u>

See accompanying notes.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 205,778	\$ 205,518
Accrued payroll and related items	1,109,599	1,021,329
Current maturities of capital lease obligations	7,621	13,024
Current maturities of notes payable	173,484	172,728
Deferred revenue	<u>89,433</u>	<u>90,490</u>
Total current liabilities	<u>1,585,915</u>	<u>1,503,089</u>
Long-term debt, net of current maturities:		
Capital lease obligations	12,982	20,776
Notes payable	<u>8,045,997</u>	<u>8,225,616</u>
Total long-term debt	<u>8,058,979</u>	<u>8,246,392</u>
Total liabilities	<u>9,644,894</u>	<u>9,749,481</u>
Net assets:		
Unrestricted	<u>3,037,483</u>	<u>2,692,960</u>
 Total liabilities and net assets	 <u>\$12,682,377</u>	 <u>\$12,442,441</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unrestricted revenue and support:		
Net patient service revenue	\$ 11,434,608	\$ 10,774,160
Federal grants	3,400,561	3,301,391
State grants	251,134	187,409
Interest income	28,662	47,768
Other income	311,974	406,207
Contributions	<u>39,519</u>	<u>100,714</u>
Total unrestricted revenue and support	<u>15,466,458</u>	<u>14,817,649</u>
Expenses:		
Salaries and wages	9,505,652	8,957,888
Employee benefits	1,284,276	1,300,200
Pension expense	177,218	171,550
Employee-related expenses	196,343	176,623
Contracted services	34,784	247,767
Consulting services	75,604	153,927
Medical supplies	501,742	470,813
Office supplies	103,258	103,158
Lab contracted services	138,911	117,135
Equipment-related expenses	288,558	295,133
Insurance	36,527	42,487
Facility operations	409,612	508,175
Office management	343,637	285,841
Depreciation	610,462	596,991
Legal and accounting	70,933	53,355
Provider tax	42,912	61,254
Provision for bad debts	653,405	742,501
Interest expense	439,908	452,126
Other expenses	<u>179,316</u>	<u>181,588</u>
Total expenses	<u>15,093,058</u>	<u>14,918,512</u>
Income (loss) from operations	373,400	(100,863)
Other gains (losses):		
Loss on sale of fixed assets	<u>(45,250)</u>	<u>-</u>
Excess revenues over (under) expenses	328,150	(100,863)
Grant funds used to purchase property and equipment	<u>16,373</u>	<u>23,939</u>
Changes in net assets	344,523	(76,924)
Net assets, beginning of year	<u>2,692,960</u>	<u>2,769,884</u>
Net assets, end of year	<u>\$ 3,037,483</u>	<u>\$ 2,692,960</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating activities:		
Changes in net assets	\$ 344,523	\$ (76,924)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	610,462	596,991
Loss on sale of fixed assets	45,250	-
Provision for bad debts	653,405	742,501
(Increase) decrease in:		
Patient receivables, net	(414,693)	(426,741)
Grants receivable	46,545	(1,947)
Due from third-party payers	(363,374)	23,100
Prepaid expenses and other current assets	7,631	(33,091)
Increase (decrease) in:		
Accounts payable	260	27,700
Accrued payroll and related items	88,270	51,902
Deferred revenue	(1,057)	23,195
Net cash provided by operating activities	<u>1,017,222</u>	<u>926,686</u>
Investing activities:		
Purchases of property and equipment	(140,141)	(331,159)
Interest earned and reinvested in assets whose use is limited	(16,921)	(23,489)
Net cash used in investing activities	<u>(157,062)</u>	<u>(354,648)</u>
Financing activities:		
Proceeds from issuance of long term debt	-	197,193
Principal payments on long term debt	(192,060)	(152,300)
Net cash provided by (used in) financing activities	<u>(192,060)</u>	<u>44,893</u>
Net increase in cash and cash equivalents	668,100	616,931
Cash and cash equivalents at beginning of year	<u>1,212,826</u>	<u>595,895</u>
Cash and cash equivalents at end of year	<u>\$ 1,880,926</u>	<u>\$ 1,212,826</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest	<u>\$ 439,908</u>	<u>\$ 452,203</u>
Assets purchased with capital lease obligation	<u>\$ -</u>	<u>\$ 17,193</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 1. DESCRIPTION OF ORGANIZATION

Shenandoah Valley Medical System, Inc. ("Organization") was incorporated in 1976 in West Virginia as a private, not-for-profit corporation. The Organization provides ambulatory care services primarily to patients residing in the Eastern Panhandle of West Virginia and the Winchester, Virginia areas. Programs include general primary care, obstetrics and gynecology, internal medicine, pediatric medicine, behavioral health services, and Woman, Infants, and Children (WIC) services.

During fiscal year 2005, the Organization established the Shenandoah Community Health Foundation ("Foundation") to solicit, collect, and otherwise raise money and to expend and dispose of money exclusively for the benefit of the Organization. The Foundation is a non-stock, not-for-profit, corporation with one sole voting member, the Organization.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Shenandoah Valley Medical System, Inc. and its subsidiary Shenandoah Community Health Foundation. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes certain investments, if any, in highly liquid debt instruments with original maturities of three months or less when purchased, which are not limited as to use

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") was issued in 2006 and defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Organization's financial assets and liabilities for the year ended March 31, 2009. The FASB approved a one-year deferral of the adoption of SFAS 157 as it relates to non-financial assets and liabilities measured at fair value on a nonrecurring basis with the issuance in February 2008 of *FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157*, as a result of which implementation by the Organization is now required for the year ending March 31, 2010. The partial adoption of SFAS 157 in 2009 had no impact on financial condition, results of operations or cash flows. The Organization is in the process of evaluating SFAS 157 as it relates to non-financial assets and liabilities but does not believe it will have a material impact on the financial statements.

Patient Receivables, Net

Patient receivables are reported at estimated net realizable amounts from patients and responsible third-party payers. Amounts owed to the Organization are reported net of allowances for bad debts and contractual adjustments. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of receivables involves significant assumptions and judgments.

In this regard, the Organization has implemented a standardized approach to estimate and review the collectability of its receivables based on accounts receivable aging trends. Historical collection and payer reimbursement experience is an integral part of the estimation process related to determining the allowance for contractual allowances and doubtful accounts. In addition, the Organization assesses the current state of its billing functions in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to net patient service revenue or bad debt expense. The Organization believes that its collection and reserve processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection, reimbursement experience and billing functions.

Property and Equipment

Property and equipment is reported at cost for purchased items and at fair value for contributed items. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is computed by the straight-line method based on estimated service lives of the assets. The Organization's policy is to capitalize assets whose expected useful life is in excess of one year and cost (or fair value) is above \$1,000.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor/grantor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor/grantor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - net assets subject to donor/grantor-imposed stipulations that they be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor/grantor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor/grantor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor/grantor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

The Organization had no temporarily or permanently restricted net assets at March 31, 2009 and 2008.

Contributions, Grants and Awards

All contributions, grants and awards are considered to be available for unrestricted use unless specifically restricted by the donor/grantor. Amounts received that are designated for future periods or restricted by the donor/grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution, grant or award is received, the Organization reports the support as unrestricted.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlement is made.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess Revenues Over (Under) Expenses

The consolidated statements of operations and change in net assets include income (loss) from operations. Changes in unrestricted net assets which are excluded from income (loss) from operations are grant funds used to purchase property and equipment. Other changes in unrestricted net assets that would be excluded from income from operations, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Charity Care

The Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Taxes

The Organization has been recognized by the Internal Revenue Service as a not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on income from activities related to its tax-exempt purpose.

The Organization is subject to the Health Care Provider Tax imposed by the State of West Virginia. These taxes are separately reported on the consolidated statements of operations and change in net assets.

In accordance with FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* ("FSP FIN 48-3"), the Organization has elected to defer application of the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), as of and for the year ended March 31, 2009. The Organization continues to account for uncertain tax positions in accordance with the principles of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," under which liabilities for uncertain tax positions are recognized in the financial statements when it becomes probable a liability has been incurred and the amount can be reasonably estimated. Unless the deferral is extended further, the Organization will be required to adopt the provisions of FIN 48 for the year ending March 31, 2010. The Organization has not yet determined the effects the adoption of the provisions of FIN 48 will have on the Organization's financial statements.

Interest

The Organization incurred \$439,908 and \$452,126 of interest costs during the years ended March 31, 2009 and 2008, respectively. No interest costs have been capitalized for the years ended March 31, 2009 and 2008.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Marketing and Advertising Costs

All marketing and advertising costs incurred have been treated as expenses of operations. A total of \$34,546 and \$38,691 in such costs are included in other expenses on the consolidated statements of operations and change in net assets for the years ended March 31, 2009 and 2008, respectively.

Grant Revenue

Federal, state and other grant revenue resulting from exchange transactions are recognized by the Organization as related grant program expenses are incurred. Grant funds are recorded as deferred revenue or grants receivable if related program expenditures are less than, or greater than, receipts for the period, respectively.

Reclassifications

There were certain reclassifications made to 2008 amounts to be consistent with the 2009 presentation. These reclassifications had no effect on the change in net assets previously reported for the year ended March 31, 2008.

Subsequent Events

The Organization evaluated the effect subsequent events would have on the financial statements through November 23, 2009, which is the date the financial statements were available to be issued.

NOTE 3. PATIENT RECEIVABLES, NET

Patient receivables, amounts due from patient and responsible parties, is reported net of contractual and bad debt allowances of \$865,005 and \$368,041 at March 31, 2009 and 2008, respectively. The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at March 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	8%	9%
Medicaid	22%	23%
Other third-party payers	40%	47%
Self-pay	30%	21%
	<u>100%</u>	<u>100%</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 4. DUE FROM THIRD-PARTY PAYERS

The Organization's estimated reimbursement for services rendered to Medicare and Medicaid program beneficiaries is determined by the submission and settlement of cost report submissions to the Medicare and Medicaid programs. At March 31, 2009 and 2008, outstanding estimated settlements are as follows:

	<u>Medicare Program</u>	<u>Medicaid Program</u>	<u>Total</u>
Year ended March 31, 2009	\$ 70,332	\$ 352,545	\$ 422,877
Year ended March 31, 2008	\$ 44,127	\$ 15,376	\$ 59,503

The Organization provides services to Medicare and Medicaid patients under cost-based reimbursement contracts. Settlements due to/from the Medicare and Medicaid programs are reported as net patient service revenue in the year of receipt or payment.

NOTE 5. ASSETS LIMITED AS TO USE

Assets limited as to use totaled \$617,467 and \$600,546 at March 31, 2009 and 2008, respectively, and consist of certificates of deposit and money market funds held at various financial institutions with varying interest rates and maturity dates. These assets have been designated by the Board of Directors for future capital improvements and to meet debt service requirements as required by the loan agreement for the new health care facility.

NOTE 6. LINE OF CREDIT

The Organization has an available line of credit with Branch Banking and Trust (BB&T) with a maximum commitment amount of \$200,000 and a variable interest rate at the bank's prime lending rate. It is secured by accounts receivable. There was no outstanding balance at March 31, 2009 and 2008.

NOTE 7. NOTES PAYABLE

The notes payable at March 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Note payable to United NCB Development Corporation (NCB); payable in monthly installments of \$20,713, including interest of 6.65% with final balloon payment in January 2031; secured by substantially all the Organization's revenue and assets.	\$ 2,832,437	\$ 2,887,675
Note payable to United States Department of Agriculture (USDA); payable in monthly installments of \$25,593, including interest of 4.25%, with final payment in January 2036; secured by substantially all the Organization's revenue and assets.	4,902,231	4,998,799

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 7. NOTES PAYABLE (CONTINUED)

Note payable to Hill-Dale Corporation; payable in monthly installments of \$228, with final payment in April 2010; unsecured.	2,963	5,700
Note payable to Branch Banking and Trust (BB&T); payable in monthly installments of \$636, including interest at the bank's prime rate plus ½% (4.5% at March 31, 2009), with final payment in October 2016; secured by a certificate of deposit.	46,192	51,627
Note payable to Branch Banking and Trust (BB&T); payable in monthly installments of \$2,310, including interest at the bank's prime rate (4.0% at March 31, 2009), with final payment in April 2022; secured by a certificate of deposit.	261,419	275,985
Note payable to Branch Banking and Trust (BB&T); payable in monthly installments of \$1,490 including interest at 7.75%, with final balloon payment in November 2012; secured by the assignment of leases and rents.	174,239	178,558
	<u>8,219,481</u>	<u>8,398,344</u>
Less current portion	<u>173,484</u>	<u>172,728</u>
	<u>\$ 8,045,997</u>	<u>\$ 8,225,616</u>

Aggregate maturities of the above notes payable are as follows for years ending March 31:

2010	\$ 173,484
2011	192,942
2012	201,903
2013	572,051
2014	202,954
Later years	<u>6,876,147</u>
	<u>\$8,219,481</u>

Debt Covenants

The Organization is subject to certain covenants as part of the aforementioned debt obligations.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 8. CAPITAL LEASE OBLIGATIONS

Obligations under capital lease existing at March 31 is as follows:

	<u>2009</u>	<u>2008</u>
Beckman Coulter; payable in monthly installments of \$773, including interest of 25.58%, maturing December 2011; collateralized by lab equipment with a cost of \$25,970 and accumulated depreciation of \$11,687.	\$ 18,191	\$ 22,236
All-Lines Leasing; payable in monthly installments of \$895, including interest of 23.10%, maturing June 2009; collateralized by janitorial equipment with a cost of \$17,193 and accumulated depreciation of \$6,018.	<u>2,412</u>	<u>11,564</u>
Less current portion	<u>7,621</u>	<u>13,024</u>
	<u>\$ 12,982</u>	<u>\$ 20,776</u>

The future minimum lease payments on the above lease are as follows for years ending March 31:

2010	\$ 11,964
2011	9,280
2012	<u>6,959</u>
	28,203
Less amount representing interest	<u>7,600</u>
	<u>\$ 20,603</u>

NOTE 9. NET PATIENT SERVICE REVENUE

Reconciliation of gross patient service revenue, computed at standard service charges, to net patient service revenue for the years ended March 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 13,355,403	\$ 12,681,880
Sliding fee adjustments (charity)	(1,492,863)	(1,242,811)
Contractual adjustments	<u>(427,932)</u>	<u>(664,909)</u>
Net patient service revenue	<u>\$ 11,434,608</u>	<u>\$ 10,774,160</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 10. RETIREMENT PLAN

The Organization has a defined contribution plan that covers substantially all regular full-time and regular part-time employees with specified service levels. The Organization's contribution is based on a percentage of each employee's salary. Employees may also make voluntary contributions. Funded retirement benefits are held in various investment vehicles designated by the employees. Contributions to the plan by the Organization amounted to \$177,218 and \$171,550 for the years ended March 31, 2009 and 2008, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Cash Balances in Excess of FDIC Insurance

The Organization maintains cash in demand deposit accounts with federally insured banks. At times the balances in these accounts may be in excess of federally insured limits. In management's opinion, the amounts in excess of FDIC limits do not pose a significant risk to the Organization.

Revenue and Support Dependency

The Organization is significantly dependent on reimbursement from the Medicaid program. Changes in program requirements or funding mechanisms could significantly impact future operating results and financial position. Additionally, a substantial portion of the Organization's revenues are generated through grants received from the U.S. Department of Health and Human Services and the West Virginia Department of Health and Human Resources. Curtailment of grant funding by the grantor agencies could have a significant effect on the operations of the Organization.

The Organization serves the areas surrounding the Eastern Panhandle of West Virginia and, accordingly, the amount of charity care provided and dependence on the Medicaid program is determined by the local economy.

Operating Leases

The Organization leases office space at various locations in Martinsburg and the surrounding area under operating leases. Medical equipment is also leased under terms of operating leases. Total rental payments for office space and equipment under operating leases for the years ended March 31, 2009 and 2008 were \$148,396 and \$179,372, respectively. One of the annual future lease payment commitments relates to building and equipment leased from an employed physician for monthly payments of \$3,348. This lease extends through January 2010, and the Organization has a first-right-of-refusal should the physician desire to sell such facilities and equipment therein located.

Future minimum lease payments on all operating leases are as follows for years ending March 31:

2010	\$	92,352
2011		<u>3,333</u>
	\$	<u>95,685</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Medical Malpractice

The Organization's health care 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 (PHS) 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 consents 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.

NOTE 12. FUNCTIONAL EXPENSES

The following reflects the Organization's expenses reported by functional classification for the years ended March 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Patient care	\$ 12,829,099	\$ 12,701,266
Management and general	<u>2,263,959</u>	<u>2,217,246</u>
	<u>\$ 15,093,058</u>	<u>\$ 14,918,512</u>

NOTE 13. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Organization has adopted the provisions of SFAS 157 in 2009 for its financial assets and liabilities. Although partially adopting SFAS 157 has had no material impact on financial condition, results of operations or cash flows, the Organization is now required to provide additional disclosures. SFAS 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes market data or assumptions that market participants would use in pricing the asset or liability. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Prices for certain cash equivalents, such as money market mutual funds, and investment securities are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1. Prices for US government and corporate obligations and interest rate swaps are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended March 31, 2009 and 2008

NOTE 13. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Organization does not have any financial assets measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 during the year ended March 31, 2009. The Organization does not have any financial liabilities measured at fair value to be reported under SFAS 157.

There were no changes during the year ended March 31, 2009 to the Organization's valuation techniques used to measure asset and liability fair values on a recurring basis.

As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table presents the financial instruments carried at fair value as of March 31, 2009, by caption, on the balance sheet by the SFAS No. 157 valuation hierarchy defined above.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Internally designated for debt service				
Certificates of deposit	\$ -	\$ 73,729	\$ -	\$ 73,729
Internally designated for capital acquisitions				
Certificates of deposit	-	<u>543,738</u>	-	<u>543,738</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ 617,467</u>	<u>\$ -</u>	<u>\$ 617,467</u>

The Organization has \$1,880,926 of cash as of March 31, 2009, which was not classified as a Level as prescribed within SFAS 157.

The determination of fair value above incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Organization's nonperformance risk on its liabilities.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Direct Awards:</i>			
Community Health Centers (4/1/08 - 3/31/09)	93 224	N/A	\$ 2,712,216
<i>Pass-through Awards:</i>			
Passed through West Virginia Department of Health and Human Resources: Family Planning Services (7/1/07 - 6/30/08)	93 217	FP09-2708	90,562
Breast and Cervical Cancer Screening (7/1/07 - 6/30/08)	93 283	BC08-1048	13,618
Family Resource Network (7/1/07 - 6/30/08)	93 590	G090244	5,944
Passed through Vanderbilt University: Southern Community Cohort Study	93 393	5R01CA092447	79,214
Passed through West Virginia University Research Corporation: Developing a Center of Excellence for Outpatient HIV Early Intervention Services	93 918	5H76HA01719	<u>47,331</u>
Total U.S. Department of Health and Human Services			<u>2,948,885</u>
<u>U.S. Department of Agriculture</u>			
<i>Pass-through Awards:</i>			
Passed through West Virginia Department of Health and Human Resources: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10/1/07 - 9/30/08)	10 557	G080529	393,012
(10/1/08 - 9/30/09)	10 557	G090548	<u>311,707</u>
Total U.S. Department of Agriculture			<u>704,719</u>
Total expenditures of federal awards			<u>\$ 3,653,604</u>

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2009

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Shenandoah Valley Medical System, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF NON-FEDERAL AWARDS
Year Ended March 31, 2009

Grantor Name/ Program Title	Grant Number	Award Amount	Receivable (Deferred Revenue) 3/31/08	Receipts 4/1/08 - 3/31/09	Expenditures 4/1/08 - 3/31/09	Receivable (Deferred Revenue) 3/31/09
<u>West Virginia Department of Health and Human Resources</u>						
Family Planning Services (7/1/08 - 6/30/09)	MOU# FP08-2078	\$ 10 818	\$ -	\$ 10 818	\$ 10,818	\$ -
Breast and Cervical Cancer Screening	MOU# BC09-1055	\$ 21 504	\$ -	\$ 21 504	\$ 21 504	\$ -
Uncompensated Care (7/1/07 - 6/30/08)	G080309	\$ 47,706	\$ -	\$ 15,743	\$ 15 743	\$ -
(7/1/08 - 6/30/09)	G090062	\$ 142,036	\$ -	\$ 79,144	\$ 79,144	\$ -
Mortgage Finance (7/1/07 - 6/30/08)	G080363	\$ 54 000	\$ -	\$ 17 820	\$ 17 820	\$ -
(7/1/08 - 6/30/09)	G090085	\$ 54,000	\$ -	\$ 36 180	\$ 36 180	\$ -
Family Resource Center (7/1/08 - 6/30/09)	G090244	\$ 39 056	\$ -	\$ 39 056	\$ 39 056	\$ -

Note: This schedule of expenditures of non-federal awards includes the primary West Virginia grant activity of Shenandoah Valley Medical System Inc. and is presented on the accrual basis of accounting. Some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

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
Shenandoah Valley Medical System, Inc.
Martinsburg, West Virginia

We have audited the consolidated financial statements of Shenandoah Valley Medical System, Inc. ("Organization") as of and for the year ended March 31, 2009 and have issued our report thereon dated November 23, 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 of the consolidated financial statements of the Organization, as of and for the year ended March 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

This report is intended solely for the information of the board of directors, management, 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.

Dixon Hughes PLLC

*Morgantown, West Virginia
November 23, 2009*



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Shenandoah Valley Medical System, Inc.
Martinsburg, West Virginia

Compliance

We have audited the compliance of Shenandoah Valley Medical System, Inc. ("Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2009. Shenandoah Valley Medical System, Inc.'s major federal programs are identified in 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 Shenandoah Valley Medical System, Inc.'s management. Our responsibility is to express an opinion on Shenandoah Valley Medical System, Inc.'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 Organization'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 Organization's compliance with those requirements.

In our opinion, the Organization 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 March 31, 2009.

Internal Control Over Compliance

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

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 Organization's ability to administer a federal program such that there is more than a remote likelihood that the Organization's noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control.

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

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

This report is intended for the information and use of management, the Board of Directors, 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.

Dixon Hughes PLLC

Morgantown, West Virginia
November 23, 2009

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued; *unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
 - *Finding 09-1: Accounts Receivable Reconciliation*
 - *Finding 09-2: Cash Reconciliation*

- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

- Noncompliance material to federal awards? Yes No

Type of auditor's report issued on compliance for major programs; *unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section I - Summary of Auditors' Results (Continued)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224 10.557	Community Health Centers Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section II - Financial Statement Findings

Finding 09-1: Accounts Receivable Reconciliation

Criteria: There is an implicit expectation under the financial reporting objective of internal control that material balance sheet accounts will be reconciled to related detail ledgers.

Condition: During the prior audit, it was determined that the accounts receivable reconciliation control process included design and implementation system flaws. During the current year under audit, the reconciliation process was not corrected and a material difference existed between the detailed accounts receivable and the general ledger balances. We consider this condition to be a material weakness in relation to the audit objective of fairly presenting financial statement information that is materially accurate.

Context: While performing audit work related to patient accounts receivable, the amounts recorded on the general ledger, which are used for the financial statements and are generally maintained by payer, appeared to have no relationship to amounts by payer that were contained in aging reports produced by the computerized accounts receivable system. Audit adjustments were recorded to agree general ledger to detail and record management's reserve for uncollectible accounts resulting in a decrease to current assets of approximately \$619,700, a reduction in net patient service revenue of approximately \$548,700, and an increase in bad debts expense of approximately \$71,000.

Effect: A material audit adjustment was necessary to fairly state patient accounts receivable, related reserve accounts, and net patient service revenue.

Cause: The patient accounts receivable subsidiary ledger was not reconciled to the related general ledger accounts in a timely nor complete manner precluding general ledger amounts from being materially accurate.

Recommendation: The organization should dedicate an employee who is responsible for reconciling the patient accounts receivable detail to the general ledger on a monthly basis. The employee should be familiar with the patient accounts receivable system and its report capabilities, but have no access to make changes to the patient detail.

Views of responsible officials and planned corrective actions: This information is in Section IV – Corrective Action Plan

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section II - Financial Statement Findings (Continued)

Finding 09-2: Cash Reconciliation

Criteria: There is an implicit expectation under the financial reporting objective of internal control that material balance sheet accounts will be reconciled to related detail ledgers and information.

Condition: During the audit, it was determined that the cash reconciliation control process included design and implementation system flaws. An unreconciled difference existed between the bank statement for the operating checking account and the general ledger balances. We consider this condition to be a material weakness in relation to the audit objective of fairly presenting financial statement information that is materially accurate when considered in combination with Finding 09-1.

Context: While performing audit work related to cash, the bank reconciliation was reviewed. The reconciliation indicated an unreconcilable difference of \$60,500. Organization adjustments were subsequently recorded to reduce the amount to \$34,100.

Effect: An unreconciled difference remained in the cash account indicating cash was understated

Cause: The bank statements were not reconciled to the related general ledger accounts in a timely nor complete manner precluding general ledger amounts from being materially accurate.

Recommendation: The organization should dedicate an employee who is responsible for reconciling the bank statements to the general ledger on a monthly basis. The employee should be familiar with the cash disbursements system, the general accounting system in use, and the patient accounts receivable system and its report capabilities, but have no access to make changes to the patient detail.

Views of responsible officials and planned corrective actions: This information is in Section IV – Corrective Action Plan

Section III - Federal Award Findings and Questioned Costs

There are no findings or questioned costs reported.

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section IV - Corrective Action Plan

Finding Number	Responsible Individual	Management Views	Corrective Action	Status	Completion Date
09-1	Steve Herring	Management agrees with the finding.	Dedicate an employee who is responsible for reconciling the patient accounts receivable detail to the general ledger.		
			1) Hire an individual dedicated to reconciling accounts receivable detail to the ledger.	A degreed accountant with auditing experience has been hired to the SVMS staff for the purpose of accounts receivable reconciliation	9/1/2009
			2) Assess, design and implement processes necessary to accurately reconcile the accounts receivable detail to the general ledger on a monthly basis.	Complete. The process necessary to accurately reconcile the detail accounts receivable with the general ledger involves running several newly designed "detail reports" in order to obtain an accurate accounts receivable figure.	10/15/2009
			3) Accurately reconcile the accounts receivable detail to the general ledger on a monthly basis.	On October 31, 2009, Margie Dove, the SVMS operations accountant, reconciled the accounts receivable detail to the general ledger. This process will continue on a monthly basis.	10/31/2009

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section IV - Corrective Action Plan (Continued)

Finding Number	Responsible Individual	Management Views	Corrective Action	Status	Completion Date
09-2	Steve Herring	Management agrees with the finding	Dedicate an employee who is responsible for reconciling bank statements to the general ledger.		
			1) Hire an individual dedicated to reconciling bank statements to the general ledger	A degreed accountant with auditing experience has been hired to the SVMS staff for the purpose of reconciling bank statements to the general ledger.	9/1/2009
			2) Access, design and implement processes necessary to accurately reconcile bank statements to the general ledger.	Complete. The process necessary to accurately reconcile the bank statements to the general ledger has been implemented.	10/15/2009
			3) Accurately reconcile the bank statements to the general ledger on a monthly basis	On October 31, 2009, Margie Dove, the SVMS operations accountant, reconciled the bank statements to the general ledger. This process will continue on a monthly basis.	10/31/2009

SHENANDOAH VALLEY MEDICAL SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2009

Section V - Summary Schedule of Prior Audit Findings

A summary schedule of prior audit findings is not required since there were no prior period audit findings relative to federal awards