



***Financial and
Compliance Report***

December 31, 2009

DHHR - Finance

MAY 14 2010

Date Received



CONTENTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER SUPPLEMENTARY INFORMATION	1-2
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of operations and changes in net assets	4
Statements of cash flows	5
Notes to financial statements	6 - 15
SUPPLEMENTARY INFORMATION	
Schedule of expenditures of Federal awards	16
Notes to schedule of expenditures of Federal awards	17
Schedule of non-Federal awards	18 - 19
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	20 - 21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	22 - 23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24 - 25
AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	26
AUDITEE'S CORRECTIVE ACTION PLAN	27

DHHR - Finance

MAY 14 2010

Date Received



**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS AND OTHER SUPPLEMENTARY INFORMATION**

To the Board of Directors
Minnie Hamilton Health System
Grantsville, West Virginia

We have audited the accompanying balance sheets of Minnie Hamilton Health System as of December 31, 2009 and 2008, 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 the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 System'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. 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 Minnie Hamilton Health System as of December 31, 2009 and 2008, and the changes 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 May 7, 2010, on our consideration of Minnie Hamilton Health System'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 for the year ended December 31, 2009. We issued a similar report for the year ended December 31, 2008, dated April 24, 2009, which has not been included with the 2009 financial and compliance report. 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 for each year.

Innovation With Results

AF Center • 101 Washington Street, East • P.O. Box 2629 • Charleston, West Virginia 25329
304/346-0441 • 800/642-3601
www.afnetwork.com

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the accompanying schedule of non Federal awards is presented for purposes of additional analysis of the basic financial statements and is not a required part of such financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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, P. L. L. C.

Charleston, West Virginia
May 7, 2010

DHHR - Finance

MAY 14 2010

Date Received

MINNIE HAMILTON HEALTH SYSTEM

BALANCE SHEETS

December 31, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and cash equivalents	\$ 759,621	\$ 272,901
Patient receivables, net of allowance for doubtful accounts of \$1,808,002 in 2009 and \$1,800,206 in 2008	1,717,820	2,140,349
Estimated third-party payor settlements	-	328,677
Grants receivable	42,634	85,144
Other receivable	-	55,651
Supplies inventory	117,496	121,714
Prepaid expenses and other assets	60,925	46,198
Total current assets	2,698,496	3,050,634
Property and Equipment, net	3,372,384	3,043,549
Total assets	\$ 6,070,880	\$ 6,094,183
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term obligations	\$ 306,383	\$ 229,258
Accounts payable and accrued expenses	299,198	581,685
Employee compensation, payroll withholdings, and taxes payable	542,606	578,700
Deferred grant revenue	39,580	20,526
Estimated third-party payor settlements	41,322	-
Total current liabilities	1,229,089	1,410,169
Long-Term Obligations, net of current maturities	1,924,697	1,868,647
Total liabilities	3,153,786	3,278,816
Net Assets - Unrestricted	2,917,094	2,815,367
Total liabilities and net assets	\$ 6,070,880	\$ 6,094,183

MINNIE HAMILTON HEALTH SYSTEM

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2009 and 2008

	2009	2008
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 13,731,329	\$ 14,083,836
Federal, state and other grants	2,041,254	1,629,177
Contributions for operating expenses	10,476	39,542
Other operating revenue	<u>203,476</u>	<u>199,882</u>
Total revenues, gains and other support	<u>15,986,535</u>	<u>15,952,437</u>
Operating expenses		
Salaries and wages	8,876,217	8,901,579
Payroll taxes and benefits	1,209,505	1,186,830
Professional fees	1,034,980	782,472
Supplies and other expenses	2,019,080	2,053,355
Insurance	166,527	164,817
Utilities	263,019	239,026
Taxes	337,796	348,273
Interest	121,758	119,866
Depreciation and amortization	608,495	598,975
Provision for bad debts	<u>1,261,437</u>	<u>1,492,082</u>
Total expenses	<u>15,898,814</u>	<u>15,887,275</u>
Operating income	<u>87,721</u>	<u>65,162</u>
Non-operating revenue		
Interest	3,700	4,191
Rental income	<u>10,306</u>	<u>6,672</u>
Total non-operating revenue	<u>14,006</u>	<u>10,863</u>
Excess of revenues over expenses	101,727	76,025
Net assets, unrestricted - beginning of year	<u>2,815,367</u>	<u>2,739,342</u>
Net assets, unrestricted - end of year	<u>\$ 2,917,094</u>	<u>\$ 2,815,367</u>

MINNIE HAMILTON HEALTH SYSTEM

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Excess of revenues over expenses	\$ 101,727	\$ 76,025
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	608,495	598,975
(Gain) loss on sale and disposal of equipment, net	76	3,954
Provision for bad debts	1,261,437	1,492,082
Change in assets and liabilities:		
(Increase) decrease in patient receivables	(838,908)	(2,081,975)
(Increase) decrease in grant receivables	42,510	(5,739)
(Increase) decrease in estimated third-party payor settlements	369,999	107,175
(Increase) decrease in supplies inventory	4,218	(13,155)
(Increase) decrease in prepaid expenses and other assets	(14,727)	155,405
(Increase) decrease in other receivables	55,651	(46,490)
Increase (decrease) in accounts payable and accrued expenses	(318,581)	183,168
Increase (decrease) in deferred revenue	19,054	(39,615)
Net cash provided by operating activities	1,290,951	429,810
Cash Flows from Investing Activities		
Purchase of property and equipment	(633,149)	(232,651)
Proceeds from sale of equipment	12,500	-
Net cash used in investing activities	(620,649)	(232,651)
Cash Flows from Financing Activities		
Proceeds from long-term obligation	78,000	-
Principal payments on long-term obligations	(261,582)	(217,320)
Net cash used in financing activities	(183,582)	(217,320)
Net increase (decrease) in cash and cash equivalents	486,720	(20,161)
Cash and cash equivalents		
Beginning	272,901	293,062
Ending	\$ 759,621	\$ 272,901
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 121,758	\$ 119,866
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment acquired through proceeds of long-term debt	\$ 316,757	\$ -

MINNIE HAMILTON HEALTH SYSTEM**NOTES TO FINANCIAL STATEMENTS**

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Minnie Hamilton Health System (the System) is a not-for-profit organization located in Grantsville, West Virginia, which provides acute medical services and outpatient services to citizens of Calhoun County and surrounding areas.

A summary of significant accounting policies follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect 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 doubtful accounts and in determining the due from/to third-party payors. It is at least reasonably possible that the significant estimates used will change within the next year.

Cash and cash equivalents: For purposes of reporting the statement of cash flows, the System 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.

Patient 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 receivables 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.

Supplies inventory: Supplies inventory is stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market.

Property and equipment: Property and equipment acquisitions are recorded at cost. Donated assets are recorded at fair value at the date of contribution. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Buildings and equipment under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Amortization of capital lease assets is included in depreciation expense.

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

During the year ended December 31, 2005, the System received emergency preparedness equipment acquired by the Calhoun County Commission and by the West Virginia Division of Homeland Security and Emergency Management through the expenditure of Federal financial assistance from the U.S. Department of Homeland Security. This equipment is considered to be owned by the System while it is used in authorized programs, however, the U.S. Department of Homeland Security has a reversionary interest in the equipment. Disposition of this equipment and the ownership of any proceeds resulting from dispositions is subject to Federal regulations and requirements.

MINNIE HAMILTON HEALTH SYSTEM**NOTES TO FINANCIAL STATEMENTS**

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

Unrestricted - Resources over which the Board of Directors has discretionary control.

Temporarily restricted - Resources subject to donor imposed restrictions which will be satisfied by actions of the System or passage of time. There were no temporarily restricted net assets at December 31, 2009 and 2008.

Permanently restricted - Resources subject to donor imposed restrictions that are to be maintained permanently by the System. There were no permanently restricted net assets at December 31, 2009 and 2008.

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

Gifts 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.

Statements of operations: For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Excess of revenues over expenses: The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets when existing, which are excluded from excess of revenues over expenses, 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, 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).

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grant revenue: Federal, state and other grant revenue resulting from exchange transactions are recognized by the System as related grant program expenses are incurred. Grant funds received in advance of the incurrence of related expenses are reflected as deferred revenue in the accompanying balance sheets.

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

Income taxes: The System is recognized as exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations.

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

Income taxes: The System is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations.

Unrelated Business Income Tax: There is currently very little guidance in the IRS Code on what activities should be subject to unrelated business income tax (UBIT). The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether the System should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the System was granted non-taxable status. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the System's non-taxable status is not expected to have a material effect on the System's financial position or results of operations.

Subsequent Events: Effective January 2010, the System entered into a capital lease to acquire a Bone Density Scanner, with 36 monthly payments of \$1,026 through January 2013. The System has evaluated subsequent events through May 7, 2010, the date on which the financial statements were available to be issued.

Advertising expense: The System expenses advertising as it is incurred. Advertising expense was \$40,911 and \$38,142 for the years ended December 31, 2009 and 2008, respectively.

Reclassifications: Certain 2008 amounts have been reclassified to conform with the 2009 presentation. These reclassifications had no impact on previously reported net assets.

Note 2. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consists of amounts with the Medicare and Medicaid program for cost reports as follows:

	2009	2008
Due from/(to) third-party payors		
Disproportionate share	\$ 24,137	\$ 13,252
Due from/(to) third-party payors		
Medicare	64,369	(35,700)
Medicaid	(129,828)	351,125
	<u>(65,459)</u>	<u>315,425</u>
Total	<u>\$ (41,322)</u>	<u>\$ 328,677</u>

Note 3. Property and Equipment

A summary of the components of property and equipment as of December 31, 2009 and 2008, is as follows:

	2009	2008
Building	\$ 2,162,611	\$ 2,162,611
Leasehold improvements	462,218	462,218
Equipment and furniture	4,752,874	3,987,060
	<u>7,377,703</u>	<u>6,611,889</u>
Less accumulated depreciation and amortization	4,005,319	3,568,340
Property and equipment, net	<u>\$ 3,372,384</u>	<u>\$ 3,043,549</u>

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

Capital lease assets at December 31, 2009 and 2008, included in property and equipment are as follows:

	2009	2008
Building and equipment	\$ 332,657	\$ 15,900
Less accumulated amortization	<u>47,576</u>	<u>14,310</u>
	<u>\$ 285,081</u>	<u>\$ 1,590</u>

Note 4. Line and Short-Term Note of Credit

The System has an available \$250,000 line of credit with interest at Wall Street prime plus 2%. There were no outstanding amounts as of December 31, 2009 and 2008.

Note 5. Long-Term Obligations

A summary of long-term obligations is as follows:

	2009	2008
Calhoun County Building Commission Healthcare Facilities Refunding and Improvement Revenue Bonds (Minnie Hamilton Health System) Series 2006A, monthly principal payments of \$25,979 including interest at 4.95%, maturing December 1, 2016, secured by substantially all System assets.	\$ 1,784,627	\$ 2,002,320
Note payable, bank, payable in monthly installments of \$1,165 with variable interest rate (7.8% at December 31, 2009), final payment due October 2017, secured by building and land with a net book value of \$96,540.	83,863	91,621
System for Rural Health, payable in monthly installments of \$1,490 with a fixed rate of 5.5%, secured by several fixed assets with a net book value of \$75,128.	69,963	-
Capital lease obligation, interest at 8.00% payable in 60 monthly installments of \$6,423 with option to buy at end of lease at Fair Market Value. Secured by equipment, with a net book value of \$285,081.	292,627	-
Capital lease obligation, paid.	-	3,964
	<u>2,231,080</u>	<u>2,097,905</u>
Less current maturities	<u>306,383</u>	<u>229,258</u>
Long-term obligations	<u>\$ 1,924,697</u>	<u>\$ 1,868,647</u>

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

Aggregate maturities of long-term obligations at December 31, 2009 are as follows:

	Capital Lease Obligation	Long-Term Debt
2010	\$ 77,072	\$ 251,266
2011	77,072	264,259
2012	77,072	277,735
2013	77,072	292,298
2014	51,381	296,854
Thereafter	-	556,041
	<u>359,669</u>	<u>\$ 1,938,453</u>
Less: amount representing interest under capital lease obligations	<u>67,042</u>	
	<u>\$ 292,627</u>	

The System entered into an agreement with the Calhoun County Building Commission whereby the Commission issued on December 1, 2006, Calhoun County Building Commission Healthcare Facilities Refinancing and Improvement Bond, Series 2006A (Minnie Hamilton Health System). The purpose of this bond was to provide funds to finance certain improvements to and equipment for the Hospital, retire certain indebtedness, and pay certain costs of issuance and related costs.

Under the terms of the Bond Agreement, the System is required to maintain certain financial and operational covenants. These provisions include, among others, limitations on incurring additional debt and limitations on capital expenditures outside of the bond project. The agreement also requires the System to satisfy certain measures of financial performance as long as the notes are outstanding.

Note 6. Donated Use of Facilities and Equipment from Calhoun County Building Commission

In 1996, the System entered into a lease arrangement with the Calhoun County Building Commission (the Commission) for use of the building and equipment that was utilized by Calhoun General Hospital, Inc. prior to its closing. The lease runs through December 2095. Under terms of the lease agreement, the System was to make monthly payments to the Commission in sufficient amounts for it to meet its debt service obligations on the facilities. After the Commission liquidated its debt obligations during 1999, lease payments were reduced to \$1 per year for the remainder of the lease term.

As the present value of projected lease payments at the lease's inception was substantially less than the fair rental value of the facilities, a restricted donation of \$771,818 was recognized by the System in 1996. This amount represented the difference between the estimated fair rental value of the leased assets and the present value of the projected lease payments.

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

Note 7. Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. For Medicare and Medicaid, the System is classified as a Critical Access Hospital and receives special reimbursement treatment. A summary of the payment arrangements with major third-party payors is as follows:

- **Medicare**

Inpatient services and certain outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are paid based on fee schedules. The System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and review thereof by the Medicare fiscal intermediary. The appropriateness of the admission of Medicare program beneficiaries is subject to an independent review by a peer review organization.

- **Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and review thereof by the Medicaid program. Certain outpatient services are paid on a per visit rate. Other outpatient services are reimbursed based upon the lesser of the System's charge or predetermined fee schedule amounts.

- **Commercial Insurance Carriers**

The System has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the System under these agreements include various discounts from established charges and capitated amounts per enrollee.

- **West Virginia Health Care Authority**

The Legislature of the State of West Virginia has created the Health Care Authority (HCA) to regulate the System's gross patient revenue based on limitation orders compiled from rate schedules and budgets submitted by the System on a periodic basis. Under current state regulations, Critical Access Hospitals are exempt from the rate setting process.

A summary of gross and net patient service revenue for all payors is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 17,153,399	\$ 17,148,158
Provision for contractual adjustments and charity care	<u>(3,422,070)</u>	<u>(3,064,322)</u>
	<u>\$ 13,731,329</u>	<u>\$ 14,083,836</u>

As a result of special provisions of the Omnibus Budget Reconciliation Act of 1987, the System qualifies as a disproportionate share hospital. As a result of qualifying for this designation, the System is entitled to supplemental Medicaid payments. Included in net patient revenues are Medicaid disproportionate share revenues of \$1,002,070 and \$1,065,134 for 2009 and 2008, respectively.

As disclosed in Note 2 to the accompanying financial statements, the System has recorded amounts for cost report settlements with Medicare and Medicaid. The 2009 and 2008 net patient service revenue was (decreased) increased by approximately \$(64,400) and \$368,000, respectively, as a result of settlements at amounts different than originally estimated.

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

In 1995, the State of West Virginia Disproportionate Share Hospital State Plan (DSH) was amended to provide for a settlement process among participating hospitals. The State has compiled the information for the years 1997 – 1999 and subsequent to begin the settlement process. The Bureau for Medicaid services has settled the DSH amounts through 1996. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals, and subject to interpretation. The System has estimated settlement amounts payable for years subject to cost settlement of \$229,938, which is netted against the DSH amounts receivable of \$254,075 for the quarterly payment due December 31, 2009.

Note 8. Concentrations of Credit Risk

The System is located in Calhoun County, West Virginia. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of net receivables from the System's patients and third-party payors is as follows:

	2009	2008
Medicare	41%	43%
Medicaid	20%	21%
Other third-party payors	18%	18%
Private pay	21%	18%
	<u>100%</u>	<u>100%</u>

As of December 31, 2009 and 2008, the System had funds on deposit at local financial institutions that exceeded Federal depository insurance coverage by approximately \$29,000 and \$39,400, respectively.

Note 9. Classification of Expenses

Operating expenses by functional category are as follows:

	2009			
	Total	Patient	Support	General
	Expenses	Care and	Services	and
		Other Program		Administrative
		Expense		
Salaries and wages	\$ 8,876,217	\$ 7,120,088	\$ 923,977	\$ 832,152
Payroll taxes and benefits	1,209,505	970,209	125,904	113,392
Professional fees	1,034,980	582,968	40,240	411,771
Supplies and other expenses	2,019,080	1,296,953	336,847	385,280
Insurance	166,527	134,784	-	31,744
Utilities	263,019	-	-	263,019
Taxes	337,796	278,960	-	58,836
Interest	121,758	-	-	121,758
Depreciation and amortization	608,495	442,130	110,415	55,950
Provision for bad debts	1,261,437	1,261,437	-	-
Total operating expenses	<u>\$ 15,898,814</u>	<u>\$ 12,087,529</u>	<u>\$ 1,537,383</u>	<u>\$ 2,273,902</u>

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

	2008			
	Total Expenses	Patient Care and Other Program Expense	Support Services	General and Administrative
Salaries and wages	\$ 8,901,579	\$ 7,230,822	\$ 864,298	\$ 806,459
Payroll taxes and benefits	1,186,830	964,071	115,235	107,524
Professional fees	782,472	376,473	47,074	358,925
Supplies and other expenses	2,053,355	1,241,509	322,820	489,026
Insurance	164,817	136,331	-	28,486
Utilities	239,026	-	-	239,026
Taxes	348,273	269,144	-	79,129
Interest	119,866	-	-	119,866
Depreciation and amortization	598,975	452,749	95,327	50,899
Provision for bad debts	1,492,082	1,492,082	-	-
Total operating expenses	\$ 15,887,275	\$ 12,163,181	\$ 1,444,754	\$ 2,279,340

Note 10. Grant Funding

The composition of various grant related items included in the financial statements for the year ended December 31, 2009, are as follows:

	Revenue	Grants Receivable	Deferred Revenue
Federal Funding			
Community Health Systems Program	\$ 942,632	\$ -	\$ -
Community Health System	8,718	-	-
Rural Hospital Flexibility	12,000	-	-
Capital Improvement Program	346,489	-	-
Increased Demand for Services	75,749	-	-
Rural Health Network Development	150,536	-	-
WV Bureau for Public Health/Threat Preparedness	15,000	-	-
National Bioterrorism Hospital Preparedness	40,780	-	-
	<u>1,591,904</u>	<u>-</u>	<u>-</u>
State Funding			
Uncompensated Care	302,342	-	-
School Based Mental Health	44,337	-	-
Mortgage Finance	48,000	6,634	-
Cancer Screening Accessibility	1,556	-	4,527
	<u>396,235</u>	<u>6,634</u>	<u>4,527</u>
Other Funding			
WVU Foundation	898	-	3,325
Calhoun County Tobacco Coalition	2,762	-	2,416
Marshall University	14,083	-	10,149
Mountain Cap	-	-	3,000
American Cancer Society	1,608	-	8,122
Center for Rural Health Development	24	-	2,075
Parkersburg Area Community F.D.	11,000	11,000	-
Mid Ohio Valley Health Department	-	-	1,281
WVHA	925	-	-
Sisters of St. Josephs	11,815	15,000	4,685
WV Governor's Office	10,000	10,000	-
	<u>53,115</u>	<u>36,000</u>	<u>35,053</u>
	<u>\$ 2,041,254</u>	<u>\$ 42,634</u>	<u>\$ 39,580</u>

MINNIE HAMILTON HEALTH SYSTEM

NOTES TO FINANCIAL STATEMENTS

The composition of various grant related items included in the financial statements for the year ended December 31, 2008, are as follows:

	Revenue	Grants Receivable	Deferred Revenue
Federal Funding			
Community Health Systems Program	\$ 922,312	\$ -	\$ -
Community Health System	8,934	-	-
Rural Hospital Flexibility	22,229	-	-
Rural Health Network Development	222,561	65,992	-
WV Bureau for Public Health/Threat Preparedness	15,500	-	-
National Bioterrorism Hospital Preparedness	20,707	-	-
	<u>1,212,243</u>	<u>65,992</u>	<u>-</u>
State Funding			
Uncompensated Care	247,275	-	-
School Based Mental Health	38,435	9,152	-
Mortgage Finance	48,000	-	-
Cancer Screening Accessibility	1,983	-	83
Electronic Medical Records	50,000	-	-
Child Care Center	1,500	-	-
	<u>387,193</u>	<u>9,152</u>	<u>83</u>
Other Funding			
WVU Foundation	2,254	-	4,222
Calhoun County Tobacco Coalition	839	-	5,179
Marshall University	464	-	32
Mountain Cap	402	-	-
Grief Counseling	335	-	-
American Cancer Society	3,019	-	9,729
WV Affiliate Susan G. Komen Foundation	572	-	-
West Virginia Primary Care Association	9,880	-	-
Center for Rural Health Development	1,007	-	-
Parkersburg Area Community F.D.	10,000	10,000	-
Mid Ohio Valley Health Department	969	-	1,281
	<u>29,741</u>	<u>10,000</u>	<u>20,443</u>
	<u>\$ 1,629,177</u>	<u>\$ 85,144</u>	<u>\$ 20,526</u>

Note 11. Medical Malpractice Claims

The System is insured with respect to medical malpractice risks under a claims made professional liability insurance policy. This arrangement provides coverage to the System for all asserted malpractice claims up to \$1,000,000 for each occurrence and a \$3,000,000 aggregate limit. Incidents occurring through December 31, 2009, may result in the assertion of a claim and other claims may be asserted arising from past services provided. Management is not aware of any claims that have been asserted or are unasserted at December 31, 2009. The System has a deductible of \$50,000 for each occurrence.

The System's health professionals are also covered by the Federal Tort Claims Act and therefore, no professional liability insurance is necessary for services provided under the scope of the Community Health Center. Pursuant to Section 224 of the Public Health Service Act (PHS), 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.

MINNIE HAMILTON HEALTH SYSTEM**NOTES TO FINANCIAL STATEMENTS**

Note 12. Rental Expense

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

Future minimum lease payments under operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year are as follows:

2010	\$ 74,194
2011	52,581
2012	<u>25,569</u>
	<u>\$ 152,344</u>

Total rental expense in 2009 and 2008 for all operating leases was approximately \$122,985 and \$112,777, respectively.

Note 13. Health Care Legislation and Regulation

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

MINNIE HAMILTON HEALTH SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Awards:			
Health Center Cluster:			
Consolidated Health Centers (Community Health Centers Program) – H80CS00761	93.224	-	\$ 384,645
Consolidated Health Centers (Community Health Centers Program) – H80CS00761	93.224	-	<u>557,987</u>
			<u>942,632</u>
American Recovery and Reinvestment Act – Health Center Integrated Services Department Initiative (Capital Improvement Program) – C81CS14449	93.703	-	346,489
American Recovery and Reinvestment Act – Health Center Integrated Services Department Initiative (Increased Services to Health Centers) – H8BCS12433	93.703	-	<u>75,749</u>
			<u>422,238</u>
Total Health Center Cluster			<u>1,364,870</u>
Rural Health Network Development Program	93.912	-	<u>150,536</u>
Passed through West Virginia			
Department of Health and Human Resources:			
State Rural Hospital Flexibility Program - Flex Educational	93.241	G090889	12,000
West Virginia Bureau for Public Health: (National Bioterrorism Hospital Preparedness Program)	93.889	G090955	15,000
Community Health System – SHIP (Small Rural Hospital Improvement Grant Program)	93.301	G090889	<u>8,718</u>
			<u>35,718</u>
Passed through the West Virginia Hospital Association:			
National Bioterrorism Hospital Preparedness Program	93.889	WVH-ASPR	<u>40,780</u>
Total U.S. Department of Health and Human Services and Total Expenditures of Federal Awards			<u>\$ 1,591,904</u>

MINNIE HAMILTON HEALTH SYSTEM**NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended December 31, 2009**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of Minnie Hamilton Health System and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 financial statements.

Note 2. Subrecipients

On the federal expenditures presented in the schedule, Minnie Hamilton Health System provided awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount
Rural Health Network Development Program	93.912	\$ 150,536

MINNIE HAMILTON HEALTH SYSTEM
SCHEDULE OF NONFEDERAL AWARDS
Year Ended December 31, 2009

Grant Name West Virginia Department of Health and Human Resources:	Reference or Grant #	Grant Program	Grant Period	Award Amount	Amount Drawn Down (Cumulative)	Amount Available	Grant Expenditures	Grants Receivable	Deferred Grant Revenue
Bureau of Public Health, Division of Primary Care	G090050	Uncompensated Care	07/01/08 06/30/09	302,342	302,342	-	198,476	-	-
Bureau of Public Health, Division of Primary Care	G100085	Uncompensated Care	07/01/09 06/30/10	293,387	103,866	189,521	103,866	-	-
Bureau of Public Health, Division of Primary Care	G080057	School Based Mental Health/Behavioral Health	07/01/08 06/30/09	43,000	43,000	-	26,220	-	-
Bureau of Public Health, Division of Primary Care	G100041	School Based Mental Health/Behavioral Health	07/01/08 06/30/09	42,250	18,117	24,133	18,117	6,634	-
Bureau of Public Health, Division of Primary Care	G090076	Mortgage Finance Funding	07/01/08 06/30/09	48,000	48,000	-	27,840	-	-
Bureau of Public Health, Division of Primary Care	G100120	Mortgage Finance Funding	07/01/09 06/30/10	48,000	20,160	27,840	20,160	-	-
Bureau of Public Health, Office of Maternal, Child and Family Health	A080176	Breast and Cervical Cancer Screening Accessibility	06/30/09	6,083	6,083	-	1,556	-	4,527
Total WVDHHR funding				783,062	541,568	241,494	396,235	6,634	4,527

Other Funding Sources:

WVU Foundation	2V123R - CIS	Cancer Prevention	04/16/07 09/01/05	3,500	3,500	-	-	-	1,586
WVU Foundation	2W264	Outreach - Peer to Peer	11/10/2007	3,500	3,500	-	898	-	1,739
Marshall University	N/A	Research	10/1/2009	3,032	3,032	-	260	-	2,772
Marshall University	N/A	Dental	9/30/2010 08/01/09	21,200	21,200	-	13,823	-	7,377
Mountain Cap	N/A	Outreach	07/31/10 2009 2010	3,000	3,000	-	-	-	3,000
WVHA	N/A	Outreach	12/31/09	925	925	-	925	-	-

(Continued)

MINNIE HAMILTON HEALTH SYSTEM

SCHEDULE OF NONFEDERAL AWARDS (Continued)
Year Ended December 31, 2009

Grant Name	Reference or Grant #	Grant Program	Grant Period	Award Amount	Amount Drawn Down (Cumulative)	Amount Available	Grant Expenditures	Grants Receivable	Deferred Grant Revenue
American Cancer Society	N/A	Cancer Prevention	12/31/07	7,487	7,487	-	-	-	2,667
American Cancer Society	N/A	Cancer Prevention	12/31/08	7,500	7,500	-	1,608	-	4,934
American Cancer Society	N/A	Cancer Prevention	12/31/08	1,000	1,000	-	-	-	521
Calhoun County Tobacco Coalition	N/A	Prevention	12/31/07	3,000	3,000	-	179	-	-
Calhoun County Tobacco Coalition	N/A	Prevention	05/31/08	2,500	2,500	-	2,500	-	-
Calhoun County Tobacco Coalition	N/A	Prevention	05/19/09	2,500	2,500	-	83	-	2,416
MOVHD	N/A	Outreach - Prevention	05/31/08	2,250	2,250	-	-	-	1,281
Center for Rural Health Dev.		Recruitment	12/31/09	6,500	2,100	4,400	24	-	2,075
Sisters of St Joseph Charitable Fund	N/A	Colposcopy	10/31/09	15,000	15,000	-	10,365	15,000	4,635
Sisters of St Joseph Charitable Fund	N/A	Teen Education	09/30/10						
			09/01/10	1,500	1,500	-	1,450	-	50
Parkersburg Area Community FD.	N/A	Mammography Equipment	12/31/09	11,000	11,000	-	11,000	11,000	-
Governor's Office	N/A	Community Participation Grant Program	12/31/09	10,000	10,000	-	10,000	10,000	-
Total other funding				105,394	100,994	4,400	53,115	36,000	35,053
Total Nonfederal Awards				888,456	642,562	245,894	449,350	42,634	39,580



**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
Minnie Hamilton Health System
Grantsville, West Virginia

We have audited the financial statements of Minnie Hamilton Health System, (the System) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 09-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Innovation With Results

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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*.

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

This report is intended solely for the information and use of management, Board of Directors, others within the Organization, the West Virginia Department of Health and Human Resources and other state and Federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Arnett + Foster, P. L. L. C.

Charleston, West Virginia
May 7, 2010

DHHR - Finance

MAY 14 2010

Date Received



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

To the Board of Directors
Minnie Hamilton Health System
Grantsville, West Virginia

Compliance

We have audited the compliance of Minnie Hamilton Health System (the System) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2009. The System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the System's management. Our responsibility is to express an opinion on the System'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 System'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 System's compliance with those requirements.

In our opinion, Minnie Hamilton Health System complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

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

Innovation With Results

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, Board of Directors, others within the Organization, the West Virginia Department of Health and Human Resources and other state and Federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Arnett + Foster, P. L.L.C.

Charleston, West Virginia
May 7, 2010

DHHR - Finance

MAY 14 2010

Date Received

MINNIE HAMILTON HEALTH SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Number	Name of Federal Program	Amount Expended
	U.S. Department of Health and Human Services Direct award:	
	Health Center Cluster:	
93.703	American Recovery and Reinvestment Act - Health Center Integrated Services Department Initiative	\$ 422,238
93.224	Consolidated Health – Community Health Centers Program	<u>942,632</u>
		<u>\$ 1,364,870</u>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000
Auditee qualified as low-risk auditee? X yes no

MINNIE HAMILTON HEALTH SYSTEM**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**Year Ended December 31, 2009

SECTION II. FINANCIAL STATEMENT FINDINGS**Reportable Conditions in Internal Control:****09-01 ACCOUNTS RECEIVABLE RESERVE CALCULATIONS****Criteria or Specific Requirement**

Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. Management uses collection percentages based upon historical collection experience to determine collectability. This requires timely and accurate patient accounting system reporting, in order to apply applicable collection percentages.

Condition and Cause

Patient accounts receivable represent a significant estimate in the System's financial statements. Included in patient accounts receivables are account balances due from patients that have no insurance, are on payment arrangements, and for deductibles and coinsurance in which the patient is responsible for payment. To properly value these patient accounts receivable, management should be performing various analysis, including but not limited to, a retrospective review of prior year balances. During our audit, we found that no specific analysis had been performed to determine if the percentages and methods used to value the above mentioned patient accounts and specifically no retrospective review of actual collection percentages had been performed.

Effect

Net Private Pay accounts receivable at December 31, 2009, is approximately \$400,000 and represents 21% of total net patient accounts receivable. The methodology used in 2009 was consistent with prior years and we did note that the allowance for doubtful accounts, as a percentage of total private pay accounts did increase; however, without performing actual tests of historical collection percentages, net private pay patient accounts receivable could be overstated and the amount could be material.

Recommendation

We recommend that the Hospital perform a detail analysis of collection percentages for private pay accounts and that a retrospective review be performed and the results be used to support the allowance percentages used for calculation of the allowance for doubtful accounts at least on a quarterly basis.

We also recommend that the Hospital analyze aged patient accounts receivable in more detail and perform an analysis of collection rates for patients on payment plans.

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan.

SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

MINNIE HAMILTON HEALTH SYSTEM**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
Year Ended December 31, 2009

No findings were reported for Federal awards for the year ended December 31, 2008.

AUDITEE'S CORRECTIVE ACTION PLAN

December 31, 2009



Minnie Hamilton Health Care Center

MINNIE HAMILTON HEALTH CARE CENTER, INC

CORRECTIVE ACTION PLAN
YEAR ENED DECEMBER 31, 2009

Reportable Conditions of Internal Control:

09-01 ACCOUNTS RECEIVABLE RESERVE CALCULATIONS

Criteria or Specific Requirement

Patients accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. Management uses collection percentages based upon historical collection experience to determine collectability. This requires timely and accurate patient accounting system reporting, in order to apply collection percentages.

Corrective Action Taken or Planned:

Contact personnel are Stephen Whited COO/CFO and Roger Jarvis, Controller. The COO/CFO will oversee a detailed analysis of collection percentages for private pay portion of all payer accounts. A retrospective review will be performed and the results will be utilized to support the allowances percentages used for the calculation of allowances for doubtful accounts. This shall be performed at least quarterly, beginning with the first quarter ending March 31, 2010. The controller shall utilize the aged patient accounts receivables to perform an analysis of collection rates for patients on payment plans, beginning with the first quarter ending March 31, 2010.

Signed

Title

COO/CFO