

ST. GEORGE MEDICAL CLINIC, INC.

***Financial and
Compliance Report
June 30, 2009***

DHHR - Finance

JUN - 1 2010

Date Received



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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying balance sheets of St. George Medical Clinic, Inc., as of June 30, 2009 and 2008, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of St. George Medical Clinic, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of St. George Medical Clinic, Inc. as of June 30, 2009 and 2008 and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009, on our consideration of St. George Medical Clinic, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2009. We issued a similar report for the year ended June 30, 2008, dated March 3, 2009, which has not been included with the 2009 financial statements. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit of each year.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of state awards for the year ended June 30, 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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Charleston, West Virginia
November 24, 2009

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ST. GEORGE MEDICAL CLINIC, INC.

BALANCE SHEETS

June 30, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and cash equivalents	\$ 233,827	\$ 80,718
Patient accounts receivables, net	81,109	66,455
Estimated third-party payor settlements	6,000	3,500
Grants receivable	41,903	-
Inventories, at cost	13,443	17,291
Total current assets	376,282	167,964
Fixed Assets		
Property, plant and equipment	803,925	803,075
Less accumulated depreciation	517,095	486,059
	286,830	317,016
Total assets	\$ 663,112	\$ 484,980
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 24,541	\$ 38,529
Accounts payable and accrued expenses	20,301	34,175
Accrued retirement benefits	-	1,902
Employee compensation and payroll taxes payable	62,203	57,455
Total current liabilities	107,045	132,061
Long-term debt, net of current maturities	193,256	153,220
Total liabilities	300,301	285,281
Unrestricted net assets	362,811	199,699
Total liabilities and net assets	\$ 663,112	\$ 484,980

ST. GEORGE MEDICAL CLINIC, INC.

STATEMENTS OF OPERATIONS
Years Ended June 30, 2009 and 2008

	2009	2008
Revenues:		
Net patient service revenue	\$ 652,464	\$ 648,959
Federal grant income	406,648	389,513
State grant income	181,749	168,920
Wellness Center revenue	-	6,635
Interest income	365	671
Other revenue	2,350	6,420
Total revenues	<u>1,243,576</u>	<u>1,221,118</u>
Expenses:		
Salaries and wages	533,250	671,015
Employee benefits	89,522	152,976
Payroll taxes	49,086	62,259
Medicine	113,929	115,678
Insurance	27,031	22,509
Contract labor	87,722	48,316
Medical supplies	15,020	20,924
Supplies	10,351	11,799
Phone and utilities	18,520	24,267
Depreciation	31,036	39,711
Interest	11,003	18,630
Professional fees	30,227	41,116
Repairs and maintenance	2,399	3,267
Minor equipment rental expense	7,266	8,278
Laboratory fees	3,577	19,217
Other	50,525	78,318
Total expenses	<u>1,080,464</u>	<u>1,338,280</u>
Excess (deficiency) of revenues over expenses before gain on sale of assets	163,112	(117,162)
Gain on sale of assets	<u>-</u>	<u>72,491</u>
Excess (deficiency) of revenues over expenses	<u>\$ 163,112</u>	<u>\$ (44,671)</u>

ST. GEORGE MEDICAL CLINIC, INC.**STATEMENTS OF CHANGES IN NET ASSETS**
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Net Assets, beginning	\$ 199,699	\$ 244,370
Excess (deficiency) of revenues over expenses	<u>163,112</u>	<u>(44,671)</u>
Unrestricted Net Assets, ending	<u>\$ 362,811</u>	<u>\$ 199,699</u>

ST. GEORGE MEDICAL CLINIC, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ 163,112	\$ (44,671)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	31,036	39,711
Gain on sale of assets	-	(72,491)
(Increase) decrease in patient receivables	(14,654)	12,847
(Increase) decrease in grants receivable	(41,903)	46,050
(Increase) decrease in third-party payor settlements	(2,500)	226
(Increase) decrease in inventories	3,848	2,471
Increase (decrease) in accounts payable and accrued expenses	(13,874)	5,103
Increase (decrease) in employee compensation and payroll taxes payable	4,748	(5,069)
Increase (decrease) in accrued retirement benefits	(1,902)	(3,722)
Net cash provided by (used in) operating activities	<u>127,911</u>	<u>(19,545)</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(850)	(2,450)
Proceeds from sale of property and equipment	-	130,000
Net cash provided by (used in) investing activities	<u>(850)</u>	<u>127,550</u>
Cash Flows from Financing Activities		
Proceeds from long-term debt	50,000	1,481
Principal payments on long-term debt	(23,952)	(133,021)
Net cash provided by (used in) financing activities	<u>26,048</u>	<u>(131,540)</u>
Net increase (decrease) in cash and cash equivalents	153,109	(23,535)
Cash and cash equivalents, beginning of year	<u>80,718</u>	<u>104,253</u>
Cash and cash equivalents, end of year	<u>\$ 233,827</u>	<u>\$ 80,718</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 11,003</u>	<u>\$ 18,630</u>

ST. GEORGE MEDICAL CLINIC, INC.**NOTES TO FINANCIAL STATEMENTS**

Note 1. Nature of Activities and Significant Accounting Policies

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

A summary of significant accounts policies follows:

Uses of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for uncollectible accounts. Because of the uncertainty in estimating the amounts that will ultimately be collected. It is at least reasonably possible that the significant estimates used will change within the next year.

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

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

Temporarily restricted – Resources subject to donor imposed restrictions which will be satisfied by actions of the Clinic or passage of time. There were no temporarily restricted net assets at June 30, 2009 or 2008.

Permanently restricted – Resources subject to donor imposed restrictions that they be maintained permanently by the Clinic. There were no permanently restricted net assets at June 30, 2009 or 2008.

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

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

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

Funding and revenue recognition: Funding for general operations of the Clinic for the year ended June 30, 2009 and 2008 was obtained from patient fees generated by providing medical services and grants from the U.S. Department of Health and Human Services and the West Virginia Department of Health and Human Resources. The grant periods varied with each individual grant.

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

ST. GEORGE MEDICAL CLINIC, INC.**NOTES TO FINANCIAL STATEMENTS**

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

Sliding fee: The Clinic provides care to patients, who meet certain criteria under its sliding fee policy at amounts less than its established rates

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

The Clinic maintains its cash accounts primarily with banks located in West Virginia. Cash balances are insured by the FDIC up to \$250,000 per bank

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

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

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

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

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

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Clinic presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Clinic has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises, such as St. George Medical Clinic, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not yet completed its analysis; however, management does not anticipate the adoption of FIN 48 will have a material impact on the financial statements. The Clinic will be required to adopt FIN 48 in its 2010 annual financial statements.

Reimbursement agreements: Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are recognized on an estimated basis in the period the related services are rendered when they can be reasonably estimated and adjusted in future periods as final settlements are determined.

Advertising expense: The Clinic expenses advertising as it is incurred. Advertising expense was \$2,990 and \$6,283 for the years ended June 30, 2009 and 2008.

Note 2. Inventories

Inventories at June 30, 2009 and 2008 are as follows:

	2009	2008
Inventory purchased	\$ 13,443	\$ 17,291

Note 3. Property and Equipment

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

	2009	2008
Land	\$ 3,000	\$ 3,000
Building and improvements	542,001	542,001
Furniture and equipment	238,082	237,232
Vehicles	20,842	20,842
	803,925	803,075
Less accumulated depreciation	517,095	486,059
	\$ 286,830	\$ 317,016

Certain items of the Clinic's property and equipment were acquired with grant funds and may be required to be returned to the grantor agencies upon termination of the grant or if the Clinic ceases operations.

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-term Debt

	2009	2008
Note payable, vendor, due in monthly installments of \$55, including interest at 14.99%, secured by equipment with a net book value of \$623 at June 30, 2009	\$ 345	\$ 1,007
Loan payable, bank, due in monthly installments (\$2,576 at June 30, 2009) including interest at a variable rate of 3.25% at June 30, 2009, secured by land, building and improvements, furniture, equipment and inventory with a net book value of \$300,273 at June 30, 2009, due June 2017.	<u>217,452</u>	<u>190,742</u>
	<u>\$ 217,797</u>	<u>\$ 191,749</u>

Maturities of debt obligations at June 30, 2009, are as follows:

Year ending June 30	
2010	\$ 24,541
2011	24,994
2012	25,819
2013	26,670
2014	27,550
Thereafter	<u>88,223</u>
	<u>\$ 217,797</u>

Note 5. Economic Dependency and Concentrations of Credit Risk

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

The Clinic grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A substantial portion of the Clinic's revenues are for services provided to Medicaid, Medicare and West Virginia Public Employees Insurance Agency beneficiaries of the State of West Virginia. Payment for these services is dependent upon adequate funding by State and Federal governments and sufficient state and Federal revenues. The mix of gross receivables as of June 30, 2009 and 2008 is as follows:

	2009	2008
Medicare	19%	13%
Medicaid	16%	17%
Other third-party payors	20%	26%
Private pay	<u>45%</u>	<u>44%</u>
	<u>100%</u>	<u>100%</u>

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

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Patient Receivables and Net Patient Service Revenues

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

	2009	2008
Patient receivables, gross	\$ 148,891	\$ 129,237
Less allowances for contractual adjustments, bad debts and charity care	<u>67,782</u>	<u>62,782</u>
Patient receivables, net	<u>\$ 81,109</u>	<u>\$ 66,455</u>

Net patient service revenue consists of the following:

	2009	2008
Patient service revenue	\$ 853,735	\$ 956,350
Less contractual adjustments	<u>201,271</u>	<u>307,391</u>
	<u>\$ 652,464</u>	<u>\$ 648,959</u>

Note 7. Commitments and Contingencies

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

The Clinic's Directors are covered by professional liability insurance on a claims made basis. Policy limits have provided per occurrence coverage up to \$1,000,000 with an aggregate limit of \$3,000,000. No losses in excess of the per occurrence or aggregate limits have been asserted, and management does not believe any current actions will exceed coverage amounts.

Note 8. Pension Expense

The Clinic had a discretionary defined contribution retirement plan (the Plan) covering substantially all of its employees. Under the plan, the Clinic's Board of Directors annually determined a percentage the Clinic would contribute to the employee's personal retirement accounts. Participants were 100% vested in the Clinic's contributions after five years. The Clinic terminated the plan effective January 1, 2009. The contribution for 2009 through the termination date and 2008 was 7.5% of eligible wages. Pension expense for the year ended June 30, 2009 and 2008 was \$10,072 and \$42,845, respectively.

Effective June 5, 2009, the Clinic adopted a Savings Incentive Match Plan for Employees (or SIMPLE IRA) plan covering substantially all of its employees. Under the plan, the Clinic's Board of Directors can elect to make discretionary contributions to the plan. Participants are 100% vested at the time of the participants' enrollment into the plan. No contribution was made by the Clinic to the plan in 2009 and no pension expense related to the plan was recognized.

ST. GEORGE MEDICAL CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Classification of Expenses

Operating expenses by functional category at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Program services	\$ 648,308	\$ 905,780
General and administrative	<u>432,156</u>	<u>432,500</u>
	<u>\$ 1,080,464</u>	<u>\$ 1,338,280</u>

Note 10. Health Care Legislation and Regulation

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

**ST. GEORGE MEDICAL CLINIC, INC.
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF STATE AWARDS
Year Ended June 30, 2009**

<u>Grant Name</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
West Virginia Department of Health and Human Resources, Bureau for Public Health, Office of Community and Rural Health Services				
Primary Care				
Uncompensated Care Grant	G090063	\$ 168,749	\$ 168,749	\$ 168,749
Mortgage Finance Grant	G090086	13,000	13,000	13,000
		<u>\$ 181,749</u>	<u>\$ 181,749</u>	<u>\$ 181,749</u>



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

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

We have audited the financial statements of St. George Medical Clinic, Inc. as of and for the year ended June 30, 2009 and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. George Medical Clinic, Inc.'s internal control over financial reporting 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 St. George Medical Clinic, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the St. George Medical Clinic, Inc.'s internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We considered the deficiencies described in the accompanying schedule of findings and responses as items 09-01 through 09-02 to be significant deficiencies in internal control over financial reporting.

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

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 09-01 to be a material weakness.

Compliance and Other Matters

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

St. George Medical Clinic, Inc.'s response to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit St. George Medical Clinic, Inc.'s response and, accordingly, we express no opinion on it.

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

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

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

Charleston, West Virginia
November 24, 2009

DHHR - Finance

JUN 1 2010

Date Received

ST. GEORGE MEDICAL CLINIC, INC.**SCHEDULE OF FINDINGS AND RESPONSES**
Year Ended June 30, 2009

09-01 Monthly Reconciliation and Documentation of Account Balances and Financial Statement AccuracyCriteria or Specific Requirement

General ledger accounts should be reconciled to subsidiary ledgers or other supporting documentation on a regular basis. These reconciliations may be performed on a monthly, quarterly, or annual basis, depending on the significance and characteristics of the account being reconciled. In addition, identified reconciling items should be resolved timely.

Interim and annual financial statements and budgets should be accurately prepared to reflect current and expected financial results including support for accounts receivable reserves. Such analysis should consider the age of accounts.

Condition

Although there was a decrease in the number of required audit adjustments, significant general ledger accounts were not reconciled to supporting subsidiary records or other documentation. Those reconciliations that were performed by management contained old and/or unexplained reconciling items.

Cause

Turnover of finance staff during the year.

Effect

Failure to properly reconcile account balances may result in misstated interim financial statements, cause delays in producing financial data necessary for management to properly adjust year-end account balances and result in management approved audit adjustments as part of the annual audit process.

Recommendation

Account balances should be regularly reconciled prior to the preparation of the monthly financial statement to ensure their accuracy and completeness. Key management and Board decisions require accurate interim financial information.

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan at page 17.

09-02 Physical Inventory CountCriteria or Specific Requirement

A physical inventory count should be performed at year end and the inventory balance on the general ledger should be adjusted to agree to the count. Physical inventory counts are an essential part in proving the existence of recorded inventory balances and recording inventory shortages and overages.

Condition

The inventory owned by the Clinic and maintained by a third party was not physically counted at year end.

ST. GEORGE MEDICAL CLINIC, INC.**SCHEDULE OF FINDINGS AND RESPONSES (Continued)**
Year Ended June 30, 2009

Cause

No communication of requirement to count inventory was made to contractor.

Effect

Failure to perform a physical inventory may result in misstated financial information which may be material to the financial statements.

Recommendation

As part of the year end close process, a physical inventory count should be performed by the Clinic or its contractor and the general ledger should be adjusted accordingly.

Views of Responsible Officials and Planned Corrective Actions

See Auditee's Corrective Action Plan at page 17.

ST. GEORGE MEDICAL CLINIC, INC.

**Auditee's Corrective Action Plan
June 30, 2009**



St. George Medical Clinic, Inc.

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

Corrective Action Plan
Fiscal Year 2009

09-01 Monthly Reconciliation and Documentation of Account Balances and Financial Statement Accuracy

Management View and Corrective Action

In the beginning of Fiscal Year 2009, the CEO was in charge of all account ledgers and balances, and supplying the Board and grant agencies with adequate and correct financial statements to reflect the financial affairs of the Clinic. The Board received what they presumed to be accurate financial statements that were approved during each monthly Board meeting. Inconsistencies became apparent about mid-year 2009, which led to the dismissal of the CEO.

Management changed in mid January 2009. New management began in January 2009, and currently reconciles all general ledger accounts including accounts receivable, accounts payable, all vendor accounts, cash accounts, and liability accounts. Management supplies a Profit and Loss Statement for the current month, a Balance Sheet, and a Budget Comparison Report to the Board and grant agencies on a monthly basis. The Board is currently receiving adequate financial information to make sound decisions on the financial viability of the Clinic. Under current management, the business manager, the biller/coder, and the CEO evaluate the accounts receivable and accounts payable ledgers on a monthly basis to determine what plan of action is needed to collect proceeds from patients or supply payment to vendors. Management's current collection process evaluates the patient's account through thirty, sixty, and ninety day intervals. Once the patient's account reaches one hundred and twenty days past due, the customer is sent a letter with a demand for payment within the next fifteen days. If the account reaches one hundred and thirty-five days past due, the patient is turned over to magistrate court for collections, and the patient's account balance is converted to bad debt. If total or partial payment is received on the collection amount, a reversing entry is made to account for this payment.

ST. GEORGE MEDICAL CLINIC, INC.

AUDITEE CORRECTIVE ACTION PLAN
June 30, 2009

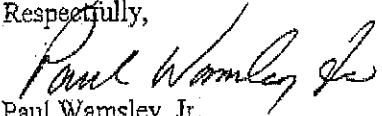
09-02 Physical Inventory Count

Management View and Corrective Action

Management agrees with the Auditor's findings that an inventory of the pharmacy should have been completed at year end. Previous management used the inventory sheets of the contracted pharmacy to reflect the inventory balances on the financial reports. No physical inventory or cost measures were implemented by management to reconcile these reports to the accounting system's balance of inventory on record.

Current management is in the process of contracting with a different pharmacy. However, regardless of which pharmacy St. George Clinic uses, a physical inventory will be completed at year end either by SGMC staff, or by an independent contractor hired by the Clinic to perform the inventory count.

Respectfully,


Paul Wamsley, Jr.
CEO

DHHR - Finance

JUN 1 2010

Date Received