

**Tug River Health Association, Inc.**

**Financial Statements  
and Supplementary Information**

**January 31, 2009**

DHHR - Finance

NOV 17 2009

Date Received

# Tug River Health Association, Inc.

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# Herman & Cormany

## Certified Public Accountants, A.C.

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Accountants & Consultants

### Independent Auditors' Report

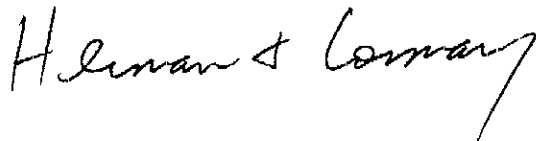
To the Board of Directors  
Tug River Health Association, Inc.  
Gary, West Virginia

We have audited the accompanying statement of financial position of Tug River Health Association, Inc. (a nonprofit organization) as of January 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Tug River Health Association, Inc.'s 2008 financial statements and, in our report dated August 6, 2008, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tug River Health Association, Inc. as of January 31, 2009, and the changes in its net assets and its cash flows for the year 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 October 20, 2009 on our consideration of Tug River Health Association, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Charleston, WV  
October 20, 2009

DHHR - Finance

NOV 17 2009

Date Received

**Tug River Health Association, Inc.**

**Statement of Financial Position**

**January 31, 2009, with Comparative Totals  
as of January 31, 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash on hand and in bank	\$ 679,787	\$ 492,767
Grants receivable	149,677	122,905
Due from patients, net of allowance for uncollectible accounts of \$247,174 in 2009 and \$62,917 in 2008	301,506	251,668
Accounts receivable - former employee	166,762	-0-
Inventories	19,732	38,320
Prepays and deposits	7,661	1,951
Property and equipment	<u>753,712</u>	<u>839,517</u>
<b>Total Assets</b>	<u>\$2,078,837</u>	<u>\$1,747,128</u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 37,197	\$ 56,857
Accrued taxes and withholding	17,727	10,563
Accrued salaries and annual leave	103,521	107,273
Deferred revenues	127,698	141,647
Notes payable	<u>41,932</u>	<u>87,291</u>
<b>Total Liabilities</b>	<u>328,075</u>	<u>403,631</u>
<b>Net Assets</b>		
Unrestricted	<u>1,750,762</u>	<u>1,343,497</u>
<b>Total Net Assets</b>	<u>1,750,762</u>	<u>1,343,497</u>
<b>Total Liabilities and Net Assets</b>	<u>\$2,078,837</u>	<u>\$1,747,128</u>

See independent auditors' report and notes to financial statements.

# Tug River Health Association, Inc.

## Statement of Activities

For the Year Ended January 31, 2009, with Comparative Totals  
For the Year Ended January 31, 2008

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenues, Gains and Other Support</b>				
Patient revenues	\$1,914,469	\$ -0-	\$1,914,469	\$1,578,773
Grants				
West Virginia Dept. of Health and Human Resources	-0-	432,794	432,794	326,051
Department of Health and Human Services	-0-	1,105,817	1,105,817	1,112,047
Marshall University Research Corp.	-0-	4,000	4,000	28,047
Sisters of St. Joseph Wellness Foundation	-0-	74,312	74,312	62,500
Other	-0-	8,484	8,484	17,500
Interest	5,498	-0-	5,498	7,471
Net assets released from restrictions:				
Satisfaction of grant activities	<u>1,625,407</u>	<u>(1,625,407)</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Revenues, Gains, and Other Support</b>	<u>3,545,374</u>	<u>-0-</u>	<u>3,545,374</u>	<u>3,132,389</u>
 <b>Expenses and Losses</b>				
Grants				
West Virginia Dept. of Health and Human Resources	432,794	-0-	432,794	326,051
Department of Health and Human Services	1,105,817	-0-	1,105,817	1,112,047
Marshall University Research Corp.	4,000	-0-	4,000	28,047
Sisters of St. Joseph Wellness Foundation	74,312	-0-	74,312	62,500
Other	8,484	-0-	8,484	17,500
Non-grant clinical services	652,410	-0-	652,410	704,007
Clinic administrative costs	<u>860,292</u>	<u>-0-</u>	<u>860,292</u>	<u>872,524</u>
<b>Total Expenses and Losses</b>	<u>3,138,109</u>	<u>-0-</u>	<u>3,138,109</u>	<u>3,122,676</u>
 <b>Change in Net Assets</b>	407,265	-0-	407,265	9,713
 <b>Net Assets, Beginning of Year</b>	<u>1,333,784</u>	<u>-0-</u>	<u>1,333,784</u>	<u>1,333,784</u>
 <b>Net Assets, End of Year</b>	<u>\$1,741,049</u>	<u>\$ -0-</u>	<u>\$1,741,049</u>	<u>\$1,343,497</u>

See independent auditors' report and notes to financial statements.

# Tug River Health Association, Inc.

## Statement of Cash Flows

For the Year Ended January 31, 2009, with  
Comparative Totals for the Year Ended January 31, 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 407,265	\$ 9,713
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	111,663	123,623
Change in bad debt reserve	184,257	(24,966)
(Increase) decrease in grants receivable	(26,772)	22,003
Decrease in accounts receivable	(234,095)	21,103
Increase in accounts receivable – former employee	(166,762)	-0-
Decrease (increase) in inventories	18,588	(334)
Increase in prepaids and deposits	(5,710)	-0-
(Decrease) increase in accounts payable	(19,660)	15,357
Increase in accrued taxes and withholdings	7,164	902
(Decrease) increase in accrued salaries and annual leave	(3,752)	10,272
(Decrease) increase in deferred revenues	<u>(13,949)</u>	<u>26,380</u>
<b>Net Cash Provided By Operating Activities</b>	<u>258,237</u>	<u>204,053</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	<u>(25,858)</u>	<u>(75,387)</u>
<b>Net Cash Used In Investing Activities</b>	<u>(25,858)</u>	<u>(75,387)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	<u>(45,359)</u>	<u>(35,856)</u>
<b>Net Cash Used In Financing Activities</b>	<u>(45,359)</u>	<u>(35,856)</u>
<b>Net Increase in Cash</b>	187,020	92,810
<b>Cash – Beginning of Year</b>	<u>492,767</u>	<u>399,957</u>
<b>Cash – End of Year</b>	<u>\$ 679,787</u>	<u>\$492,767</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>\$ 5,110</u>	<u>\$ 8,117</u>

See independent auditors' report and notes to financial statements.

# **Tug River Health Association, Inc.**

## **Notes to Financial Statements**

**January 31, 2009 with Comparative Totals  
as of January 31, 2008**

### **Note A – Summary of Significant Accounting Policies**

Nature of Activities - Tug River Health Association, Inc. provides medical and dental care to rural areas of southern West Virginia. The Organization's revenues are received primarily from patient revenues and governmental grants supporting their various programs and health initiatives.

Inventories - Inventories consist of medical and other supplies to be consumed in the treatment of patients and the general operation of the facility. Inventories are stated at cost.

Classification of Support - The Organization reports gifts of cash and other assets 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 on the statement of activities as net assets released from restrictions.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Comparative Totals - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended January 31, 2008, from which the summarized information was derived.

Advertising – Advertising costs are expensed as incurred. Advertising expense was \$16,934 and \$17,263 for the years ended January 31, 2009 and 2008, respectively.

# Tug River Health Association, Inc.

## Notes to Financial Statements

January 31, 2009, with Comparative Totals  
as of January 31, 2008

### Note A – Summary of Significant Accounting Policies (Continued)

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment items are recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended January 31, 2009 and 2008 was \$111,663 and \$123,623, respectively. The classification of these capitalized items are classified in the accompanying financial statements as follows, with comparative totals as of January 31, 2008:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 129,058	\$ 129,058
Buildings and improvements	1,370,093	1,361,348
Vehicles, furniture and equipment	736,916	719,803
	<u>2,236,067</u>	<u>2,210,209</u>
Less accumulated depreciation	<u>1,482,355</u>	<u>1,370,692</u>
	<u>\$ 753,712</u>	<u>\$ 839,517</u>

Patient Revenues and Patient Accounts Receivable – Patient revenue and patient accounts receivable are derived primarily from patients in the McDowell and Wyoming County areas and are reported at the net realizable amounts from patients, third party payors, and others for services rendered. Credit extended to patients does not require collateral. The Organization utilizes the reserve method for accounting for bad debts. Management provides for uncollectible amounts within the allowance for doubtful accounts. Amounts that are deemed uncollectible are charged against the reserve.

Charity Care – The Organization provides care to patients, who meet certain criteria, without charge or at amounts less than its established rate under a sliding fee arrangement covered by grant funds. Because the Organization does not pursue collection of these amounts they are not included within net patient revenues. The amount of charity care approximated \$1,363,601 and \$1,229,731 for the years ended January 31, 2009 and 2008, respectively.

Deferred Revenues – Deferred revenues at January 31, 2009, with comparative totals as of January 31, 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Grant funds received in advance of expenditures		
WV Department of Health and Human Resources	\$ 87,033	\$ 50,982
Sisters of St. Joseph Wellness Foundation	-	50,000
WV Health Care Authority	34,565	34,565
Contributions received-retinal research	6,100	6,100
	<u>\$127,698</u>	<u>\$141,647</u>



# Tug River Health Association, Inc.

## Notes to Financial Statements

January 31, 2009 with Comparative Totals  
as of January 31, 2008

### Note A – Summary of Significant Accounting Policies (Continued)

Policy of Cash Equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Income Taxes – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation under Section 509(a)(2).

### Note B – Long-Term Debt

	<u>2009</u>	<u>2008</u>
Note payable to a bank, currently bearing interest at 7.5% and payable in monthly installments of principal and interest of \$1,608 through November, 2011; secured by property and equipment	\$41,932	\$66,379
Note payable to a company, bearing interest at 6.25% and payable in monthly installments of principal and interest of \$1,575 through November, 2009; secured by certain real property.	-0-	20,912
	<u>\$41,932</u>	<u>\$87,291</u>

Interest expense for the years ended January 31, 2009 and 2008 was \$5,110 and \$8,117, respectively.

Following are maturities of long-term debt for each of the next five years and thereafter:

<u>Year ended</u> <u>January 31,</u>	<u>Amount</u>
2010	\$16,185
2011	17,442
2012	8,305
Thereafter	-0-
	<u>\$41,932</u>

### Note C – Program and Other Expenditures

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General operating expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

# Tug River Health Association, Inc.

## Notes to Financial Statements

January 31, 2009 with Comparative Totals  
as of January 31, 2008

### Note C – Program and Other Expenditures (Continued)

Expenditures for the year ended January 31, 2009, with comparative totals as of January 31, 2008, were as follows:

	<u>Clinical Services</u>	<u>General Operating</u>	<u>Total</u>	<u>2008 Total</u>
Salaries and wages	\$1,225,925	\$400,173	\$1,626,098	\$1,717,968
Payroll taxes and benefits	257,532	84,065	341,597	352,446
Medical supplies and pharmacy	165,059	-0-	165,059	156,416
Office expense and advertising	23,147	45,717	68,864	76,056
Telephone and utilities	21,035	87,356	108,391	94,776
Maintenance, repairs and equipment rental	45,510	52,738	98,248	92,504
Insurance	19,825	5,142	24,967	24,306
Travel and conferences	18,845	6,695	25,540	30,592
Depreciation	88,984	22,679	111,663	123,623
Reference lab	41,523	-0-	41,523	64,636
Contractual and professional	230,555	190,229	420,784	328,265
Vehicle expenses	-0-	16,321	16,321	16,332
Interest	-0-	5,110	5,110	8,117
Other taxes and licenses	8,129	28,132	36,261	30,753
Occupancy	47,683	-0-	47,683	5,886
	<u>\$2,193,752</u>	<u>\$944,357</u>	<u>\$3,138,109</u>	<u>\$3,122,676</u>

### Note D – Net Assets Released From Restrictions

Net assets were released from donor and grant restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended January 31, 2009 as follows:

Purpose restriction accomplished:

Grants

WV Dept of Health and Human Resources	\$ 432,794
Department of Health and Human Services	1,105,817
Marshall University Research Corp.	4,000
Sisters of St Joseph Wellness Foundation	74,312
Other	8,484
	<u>\$1,625,407</u>

### Note E – Line of Credit

The Organization has a \$50,000 line of credit with a bank. Advances under the line are payable on demand and carry an interest rate of 8.25%. The credit line is secured by property held by the Organization. There was no balance outstanding under this line of credit at January 31, 2009 and 2008.

# **Tug River Health Association, Inc.**

## **Notes to Financial Statements**

**January 31, 2009 with Comparative Totals  
as of January 31, 2008**

### **Note F – Certificates of Deposit**

Certificates of deposit totaling \$155,800 at January 31, 2009 are included in cash in the accompanying financial statements. The certificates bear interest at rates ranging from 1.69% to 2.04% and have maturities ranging from six to seven months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

### **Note G – Concentration of Funds**

The Organization receives a significant portion of its support from federal and state government grants and patient revenues at January 31, 2009 and 2008. A material reduction in the level of support or nonpayment of fees generated would have a significant impact on the Organization's programs and activities, and its ability to continue as a going concern.

### **Note H – Pineville Operations**

On April 2, 2008, the Organization took over the operations of an existing medical clinic in Pineville, West Virginia. Effective on that date, the Organization began providing medical services and incurred the expenses and billings associated with its operations. As part of the assuming of the operations, the Organization agreed to pay the physicians who owned the practice \$1 per year for the rental of the facilities and its equipment. This amount is below market value, but due to the difficulty in determining a reasonable value for these items, no in-kind contributions are recorded for the additional value of these items. During the year ended January 31, 2009, the Organization recorded patient charges of \$308,528 related to these clinical operations and provided charity care to patients under the sliding fee arrangement of \$58,972.

### **Note I – Accounts Receivable – Former Employee**

During the year ended January 31, 2009, the Organization's former CFO embezzled \$166,762 from its operating checking account. The embezzlement continued until it was discovered in July, 2009. The embezzlement totaled approximately \$378,000 prior to its discovery.

The former CFO has admitted guilt in the embezzlement and agreed to pay restitution. As part of the restitution plan, a deed of trust for property held by the former CFO has been signed over to the Organization, and they will receive the proceeds from the sale of the property after the original loan on the property has been paid off. Based upon the asking price of the property, the Organization will receive a substantial portion of the total embezzlement as restitution upon its sale. Therefore, the entire amount of the embezzlement at January 31, 2009 is recorded as an accounts receivable in the accompanying financial statements.

**Supplementary Information**

# Herman & Cormany

Certified Public Accountants, A.C.

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Accountants & Consultants

## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
Tug River Health Association, Inc.  
Gary, West Virginia

Our report on our audit of the basic financial statements of Tug River Health Association, Inc. for the year ended January 31, 2009 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on pages 11 and 12 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.



Charleston, WV  
October 20, 2009

DHHR - Finance

NOV 17 2009

Date Received

**Tug River Health Association, Inc.**  
**Schedule of Expenditures by Location**  
**For the Year Ended January 31, 2009**

	<u>Total</u>	<u>Gary</u>	<u>Northfork</u>	<u>Dental Clinic</u>	<u>Black Lung</u>
<b>Expenditures</b>					
Salaries	\$1,626,098	\$ 511,438	\$498,691	\$63,293	\$133,800
Payroll taxes and fringe benefits	341,597	135,743	75,348	12,178	30,910
Medical supplies and pharmacy	165,059	70,618	40,947	10,242	12,109
Vehicle expenses	16,321	2,689	-0-	-0-	6,501
Telephone and utilities	108,391	46,933	19,559	3,431	3,445
Travel and conferences	25,540	6,385	6,217	327	7,762
Reference lab	41,523	20,712	13,356	926	53
Office expenses and advertising	68,864	30,515	8,210	-0-	4,368
Contractual and professional	420,784	164,816	30,459	-0-	218,657
Equipment rental	23,438	15,725	5,492	-0-	-0-
Interest	5,110	-0-	5,110	-0-	-0-
Depreciation	111,663	61,421	40,468	-0-	5,064
Insurance	24,967	12,291	6,190	581	-0-
Repairs and maintenance	74,810	45,614	12,560	645	5,390
Dues, fees and licenses	13,782	6,951	4,930	-0-	1,000
Occupancy	47,683	17,787	8,591	-0-	-0-
Other taxes	<u>22,479</u>	<u>8,194</u>	<u>8,495</u>	<u>233</u>	<u>5,031</u>
<b>Total Expenditures</b>	<u>\$3,138,109</u>	<u>\$1,157,832</u>	<u>\$784,623</u>	<u>\$91,856</u>	<u>\$434,090</u>

See independent auditors' report on supplementary information.

<u>CHAMP</u>	<u>M.I.H.</u>	<u>Pineville</u>	<u>School Based Health</u>	<u>Wellness</u>	<u>Minority Health</u>
\$27,119	\$30,933	\$167,370	\$127,656	\$65,798	\$ -0-
3,315	10,571	32,482	30,874	10,176	-0-
-0-	-0-	23,456	7,687	-0-	-0-
-0-	7,131	-0-	-0-	-0-	-0-
866	-0-	11,449	13,173	9,535	-0-
2,147	95	1,010	667	930	-0-
-0-	-0-	4,648	1,828	-0-	-0-
13,980	-0-	6,343	1,384	4,064	-0-
-0-	-0-	1,652	-0-	5,200	-0-
-0-	2,100	-0-	121	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	4,710
-0-	-0-	2,961	-0-	2,944	-0-
-0-	-0-	7,119	1,580	1,902	-0-
-0-	-0-	150	751	-0-	-0-
-0-	-0-	5,132	5,255	10,918	-0-
-0-	-0-	526	-0-	-0-	-0-
<u>\$47,427</u>	<u>\$50,830</u>	<u>\$264,298</u>	<u>\$190,976</u>	<u>\$111,467</u>	<u>\$4,710</u>

**Tug River Health Association, Inc.**  
**Schedule of Expenses by Service Type**  
**For the Year Ended January 31, 2009**

	<u>Total</u>	<u>Medical</u>	<u>Lab</u>	<u>X-Ray</u>	<u>Dental</u>
<b>Expenditures</b>					
Salaries	\$1,626,098	\$ 862,512	\$ 55,561	\$29,494	\$63,293
Payroll taxes and fringe benefits	341,597	-0-	-0-	-0-	-0-
Medical supplies and pharmacy	165,059	91,738	59,052	4,027	10,242
Vehicle expenses	16,321	-0-	-0-	-0-	-0-
Telephone and utilities	108,391	2,340	-0-	-0-	-0-
Travel and conferences	25,540	7,847	-0-	-0-	327
Reference lab	41,523	-0-	40,597	-0-	926
Office expenses and advertising	68,864	4,027	-0-	-0-	-0-
Contractual and professional	420,784	223,717	-0-	1,650	-0-
Equipment rental	23,438	-0-	-0-	-0-	-0-
Interest	5,110	-0-	-0-	-0-	-0-
Depreciation	111,663	31,992	1,740	461	-0-
Insurance	24,967	-0-	-0-	-0-	-0-
Repairs and maintenance	74,810	10,248	6,386	3,480	-0-
Dues, fees and licenses	13,782	8,129	-0-	-0-	-0-
Occupancy	47,683	-0-	-0-	-0-	-0-
Other taxes	<u>22,479</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Expenditures</b>	<u>\$3,138,109</u>	<u>\$1,242,550</u>	<u>\$163,336</u>	<u>\$39,112</u>	<u>\$74,788</u>

See independent auditors' report on supplementary information.



<u>Other Health</u>	<u>Medical Records</u>	<u>Admin.</u>	<u>Facility</u>	<u>Fringes</u>
\$191,851	\$7,885	\$400,173	\$ 15,329	\$ -0-
-0-	-0-	-0-	-0-	341,597
-0-	-0-	-0-	-0-	-0-
-0-	-0-	16,321	-0-	-0-
-0-	-0-	87,356	18,695	-0-
10,671	-0-	6,695	-0-	-0-
-0-	-0-	-0-	-0-	-0-
-0-	-0-	45,717	19,120	-0-
5,188	-0-	190,229	-0-	-0-
-0-	-0-	23,438	-0-	-0-
-0-	-0-	5,110	-0-	-0-
-0-	-0-	22,679	54,791	-0-
-0-	-0-	5,142	19,825	-0-
-0-	-0-	29,300	25,396	-0-
-0-	-0-	5,653	-0-	-0-
-0-	-0-	-0-	47,683	-0-
-0-	-0-	22,479	-0-	-0-
<u>\$207,710</u>	<u>\$7,885</u>	<u>\$860,292</u>	<u>\$200,839</u>	<u>\$341,597</u>

# Herman & Cormany

## Certified Public Accountants, A.C.

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Accountants & Consultants

**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  
Tug River Health Association, Inc.  
Gary, West Virginia

We have audited the financial statements of Tug River Health Association, Inc. (a nonprofit organization) as of and for the year ended January 31, 2009, and have issued our report thereon dated October 20, 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 Tug River Health Association, 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 Tug River Health Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We considered deficiencies 2009-1 and 2009-2 described in the accompanying schedule of findings and questioned costs 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 Organization's internal control.

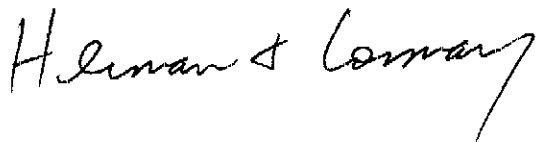
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

To the Board of Directors  
Tug River Health Association, Inc.  
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tug River Health Association, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2009-2 and 2009-1.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties



Charleston, West Virginia  
October 20, 2009

DHHR - Finance

NOV 17 2009

Date Received

# Herman & Cormany

## Certified Public Accountants, A.C.

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Accountants & Consultants

### **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  
Tug River Health Association, Inc.  
Gary, West Virginia

#### Compliance

We have audited the compliance of Tug River Health Association, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U S Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended January 31, 2009. Tug River Health Association, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tug River Health Association, Inc.'s management. Our responsibility is to express an opinion on Tug River Health Association, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tug River Health Association, Inc.'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 Tug River Health Association, Inc.'s compliance with those requirements.

In our opinion, Tug River Health Association, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended January 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

### Internal Control Over Compliance

The management of Tug River Health Association, Inc. 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 Tug River Health Association, Inc.'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 Tug River Health Association, Inc.'s internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs, we consider items 2009-1 and 2009-2 to be material weaknesses

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

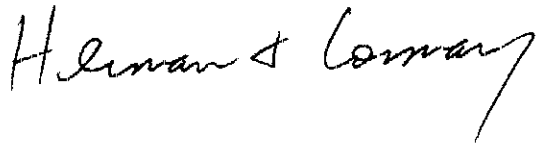
### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Tug River Health Association, Inc. as of and for the year ended January 31, 2009, and have issued our report thereon dated October 20, 2009. Our audit was performed 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

To the Board of Directors  
Tug River Health Association, Inc.  
Page three

additional analysis as required by OMB Circular A-133 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.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and the various federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Charleston, West Virginia  
October 20, 2009

DHHR - Finance

NOV 17 2009

Date Received

**Tug River Health Association, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended January 31, 2009**

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Disbursements/ Expenditures</u>
<b>DIRECT AWARDS</b>			
Department of Health and Human Services Community Health Centers Program	93 224	H80CS00701	\$ <u>984,060</u>
<b>PASS THROUGH AWARDS</b>			
Department of Health and Human Services Passed Through the West Virginia Department of Health and Human Resources			
Coal Miners Respiratory Impairment Treatment Clinic and Services	93.965	G080377	44,192
Coal Miners Respiratory Impairment Treatment Clinic and Services	93 965	G090100	77,565
National Bioterrorism Hospital Preparedness Program	93.889	N/A	<u>8,000</u>
			<u>129,757</u>
Total expenditures of federal awards			<u>\$1,113,817</u>

**Note A – Basis of Presentation**

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

**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended January 31, 2009**

**Section 1 – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: unqualified

- Control deficiencies disclosed? \_\_x\_\_ Yes \_\_\_ No
  - Control deficiencies reported as a significant deficiency? \_\_x\_\_ Yes \_\_\_ No
  - Control deficiencies reported as a material weakness? \_\_x\_\_ Yes \_\_\_ No
- Noncompliance material to financial statements notes? \_\_x\_\_ Yes \_\_\_ No

**Federal Awards**

Internal control over major programs:

- Control deficiencies identified? \_\_x\_\_ Yes \_\_\_ No
- Control deficiencies reported as a significant deficiency? \_\_x\_\_ Yes \_\_\_ No
- Control deficiencies reported as material weaknesses? \_\_x\_\_ Yes \_\_\_ No

Type of auditors’ 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? \_\_x\_\_ Yes \_\_\_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93 224	Community Health Centers Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_x\_\_ Yes \_\_\_ No



**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended January 31, 2009**

**Section II - Financial Statement Findings**

**MATERIAL WEAKNESS**

*2009-1 Misappropriation of Funds Caused by Improper Segregation of Duties*

*Condition:* The former CFO of the organization embezzled \$166,762 of funds during the year ended January 31, 2009.

*Criteria:* Appropriate and properly functioning internal controls should be in place to prevent any opportunities for the misappropriation of funds.

*Cause:* Internal controls as designed to provide a segregation of duties did not prevent the misappropriation of funds from occurring.

*Effect:* The lack of segregation of duties and properly functioning internal controls allowed for the misappropriation of approximately \$378,000 before it was discovered.

*Recommendation:* Provide additional levels of segregation of duties of accounting functions, and devise additional internal control procedures to prevent fraud from occurring in the future.

*Response:* We agree with the recommendation. We have hired a CPA on staff to perform accounting functions, and additionally we have hired an outside CPA firm to assist in report preparation. Additionally, we will add additional controls to be performed on a daily basis to prevent this from occurring in the future

*2009-2 Monthly Financial Reports*

*Condition:* On a monthly basis, the Organization is not providing full accrual financial statements to the board of directors and management.

*Criteria:* Management should have financial information reported on an ongoing basis to allow it to make proper decisions about the Organization's operations.

*Cause:* Financial reporting should be consistent throughout the year to provide management with the proper information to make sound fiscal decisions

*Effect:* The Organization makes decisions on fiscal data that is not fully integrated as accrual basis financial statements, causing revenues and expenses to be inconsistently reported on an ongoing basis.

**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended January 31, 2009**

2009-2 Monthly Financial Reports (Continued)

*Recommendation:* Hire appropriate personnel to prepare its general ledger and internal financial statements on the accrual basis of accounting to properly record accounts receivable, allowance for uncollectibles, and other related accounts.

*Response:* We agree with the recommendation and have already hired a CPA for our staff and have employed an outside accounting firm to assist in the completion of monthly financial data on the full accrual basis of accounting.

**Section III – Federal Award Findings and Questioned Costs**

The findings are the same as reported in Section II. There are no questioned costs as it related to federal awards as, based upon the information provided by the Organization, there was no interruption of services as it relates to its federal awards. Consequently, the misappropriation of funds had no effect on the grant and its services provided.