

**Tug River Health Association, Inc.**

**Financial Statements  
and Supplementary Information**

**January 31, 2010**

**DHHR - Finance**

**JUN 2 2011**

**Date Received**

# Tug River Health Association, Inc.

## Table of Contents

**Page**

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements</b>	
Statement of Financial Position .....	2
Statement of Activities .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements .....	5-9
<b>Independent Auditors' Report on Supplementary Information</b> .....	10
Schedule of Expenditures by Location .....	11
Schedule of Expenses by Service Type .....	12
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	13-14
<b>Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133</b> .....	15-17
<b>Schedule of Expenditures of Federal Awards</b> .....	18
<b>Summary Schedule of Prior Audit Findings</b> .....	19
<b>Schedule of Findings and Questioned Costs</b> .....	20-21

# Herman & Cormany

## Certified Public Accountants, A.C.

---

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, 2010, 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 2009 financial statements and, in our report dated October 20, 2009, 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, 2010, 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 August 19, 2010 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Charleston, WV  
August 19, 2010

# Tug River Health Association, Inc.

## Statement of Financial Position

January 31, 2010, with Comparative Totals  
as of January 31, 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash on hand and in bank	\$ 946,919	\$ 679,787
Grants receivable	56,278	149,677
Due from patients, net of allowance for uncollectible accounts of \$346,495 in 2010 and \$247,174 in 2009	220,819	301,506
Accounts receivable - former employee	369,606	166,762
Inventories	20,486	19,732
Prepays and deposits	8,877	7,661
Property and equipment	<u>920,882</u>	<u>753,712</u>
<b>Total Assets</b>	<u>\$2,543,867</u>	<u>\$2,078,837</u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 82,836	\$ 37,197
Accrued taxes and withholding	4,243	17,727
Accrued salaries and annual leave	128,072	103,521
Deferred revenues	96,497	127,698
Notes payable	<u>-0-</u>	<u>41,932</u>
<b>Total Liabilities</b>	<u>311,648</u>	<u>328,075</u>
<b>Net Assets</b>		
Unrestricted	<u>2,232,219</u>	<u>1,750,762</u>
<b>Total Net Assets</b>	<u>2,232,219</u>	<u>1,750,762</u>
<b>Total Liabilities and Net Assets</b>	<u>\$2,543,867</u>	<u>\$2,078,837</u>

See independent auditors' report and notes to financial statements.

# Tug River Health Association, Inc.

## Statement of Activities

For the Year Ended January 31, 2010, with Comparative Totals  
For the Year Ended January 31, 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenues, Gains and Other Support</b>				
Patient revenues	\$2,070,158	\$ -0-	\$2,070,158	\$1,914,469
Grants				
West Virginia Dept. of Health and Human Resources	-0-	584,478	584,478	432,794
Department of Health and Human Services	-0-	1,433,491	1,433,491	1,105,817
West Virginia Development Office	-0-	10,787	10,787	-0-
Marshall University Research Corp.	-0-	-0-	-0-	4,000
Sisters of St. Joseph Wellness Foundation	-0-	24,312	24,312	74,312
Other	-0-	32,083	32,083	8,484
Interest	6,058	-0-	6,058	5,498
Net assets released from restrictions:				
Satisfaction of grant activities	<u>2,085,151</u>	<u>(2,085,151)</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Revenues, Gains, and Other Support</b>	<u>4,161,367</u>	<u>-0-</u>	<u>4,161,367</u>	<u>3,545,374</u>
 <b>Expenses and Losses</b>				
Grants				
West Virginia Dept. of Health and Human Resources	584,478	-0-	584,478	432,794
Department of Health and Human Services	1,433,491	-0-	1,433,491	1,105,817
West Virginia Development Office	10,787	-0-	10,787	-0-
Marshall University Research Corp.	-0-	-0-	-0-	4,000
Sisters of St. Joseph Wellness Foundation	24,312	-0-	24,312	74,312
Other	32,083	-0-	32,083	8,484
Non-grant clinical services	640,656	-0-	640,656	652,410
Clinic administrative costs	<u>954,103</u>	<u>-0-</u>	<u>954,103</u>	<u>860,292</u>
<b>Total Expenses and Losses</b>	<u>3,679,910</u>	<u>-0-</u>	<u>3,679,910</u>	<u>3,138,109</u>
 <b>Change in Net Assets</b>	481,457	-0-	481,457	407,265
 <b>Net Assets, Beginning of Year</b>	<u>1,750,762</u>	<u>-0-</u>	<u>1,750,762</u>	<u>1,343,497</u>
 <b>Net Assets, End of Year</b>	<u>\$2,232,219</u>	<u>\$ -0-</u>	<u>\$2,232,219</u>	<u>\$1,750,762</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, 2010, with  
Comparative Totals for the Year Ended January 31, 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 481,457	\$ 407,265
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	103,425	111,663
Change in bad debt reserve	99,321	184,257
Decrease (increase) in grants receivable	93,399	(26,772)
Increase in accounts receivable	(18,634)	(234,095)
Increase in accounts receivable – former employee	(202,844)	(166,762)
(Increase) decrease in inventories	(754)	18,588
Increase in prepaids and deposits	(1,216)	(5,710)
Increase (decrease) in accounts payable	45,639	(19,660)
(Decrease) increase in accrued taxes and withholdings	(13,484)	7,164
Increase (decrease) in accrued salaries and annual leave	24,551	(3,752)
Decrease in deferred revenues	<u>(31,201)</u>	<u>(13,949)</u>
<b>Net Cash Provided By Operating Activities</b>	<u>579,659</u>	<u>258,237</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	<u>(270,595)</u>	<u>(25,858)</u>
<b>Net Cash Used In Investing Activities</b>	<u>(270,595)</u>	<u>(25,858)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	<u>(41,932)</u>	<u>(45,359)</u>
<b>Net Cash Used In Financing Activities</b>	<u>(41,932)</u>	<u>(45,359)</u>
<b>Net Increase in Cash</b>	267,132	187,020
<b>Cash – Beginning of Year</b>	<u>679,787</u>	<u>492,767</u>
<b>Cash – End of Year</b>	<u>\$ 946,919</u>	<u>\$ 679,787</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>\$ 2,011</u>	<u>\$ 5,110</u>

See independent auditors' report and notes to financial statements.

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

## **Notes to Financial Statements**

**January 31, 2010 with Comparative Totals  
as of January 31, 2009**

### **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.

Revenue Recognition – All contributions and grants are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor or grantor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

In-kind Contributions – As part of its operations in Pineville, West Virginia, the Organization pays its physicians who previously privately 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.

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.

# Tug River Health Association, Inc.

## Notes to Financial Statements

January 31, 2010, with Comparative Totals  
as of January 31, 2009

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

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, 2009, from which the summarized information was derived.

Advertising – Advertising costs are expensed as incurred. Advertising expense was \$29,143 and \$16,934 for the years ended January 31, 2010 and 2009, respectively.

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$1,500. 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, 2010 and 2009 was \$103,425 and \$111,663, respectively. The classification of these capitalized items are classified in the accompanying financial statements as follows, with comparative totals as of January 31, 2009:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 129,058	\$ 129,058
Buildings and improvements	1,531,179	1,370,093
Vehicles, furniture and equipment	<u>588,595</u>	<u>736,916</u>
	2,248,832	2,236,067
Less accumulated depreciation	<u>1,327,950</u>	<u>1,482,355</u>
	<u>\$ 920,882</u>	<u>\$ 753,712</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 \$2,544,324 and \$1,363,601 for the years ended January 31, 2010 and 2009, respectively.



**Tug River Health Association, Inc.**

**Notes to Financial Statements**

**January 31, 2010 with Comparative Totals  
as of January 31, 2009**

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

Deferred Revenues – Deferred revenues at January 31, 2010, with comparative totals as of January 31, 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Grant funds received in advance of expenditures		
WV Department of Health and Human Resources	\$79,214	\$ 87,033
WV Health Care Authority	17,283	34,565
Contributions received-retinal research	<u>-0-</u>	<u>6,100</u>
	<u>\$96,497</u>	<u>\$127,698</u>

Policy of Cash Equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of six 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>2010</u>	<u>2009</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.	<u>\$-0-</u>	<u>\$41,932</u>

Interest expense for the years ended January 31, 2010 and 2009 was \$2,011 and \$5,110, respectively

**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, 2010 with Comparative Totals  
as of January 31, 2009

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

Expenditures for the year ended January 31, 2010, with comparative totals as of January 31, 2009, were as follows:

	<u>Clinical Services</u>	<u>General Operating</u>	<u>Total</u>	<u>2009 Total</u>
Salaries and wages	\$1,569,831	\$ 395,757	\$1,965,588	\$1,626,098
Payroll taxes and benefits	333,708	84,128	417,836	341,597
Medical supplies and pharmacy	137,056	-0-	137,056	165,059
Office expense and advertising	26,246	45,074	71,320	68,864
Telephone and utilities	27,325	101,493	128,818	108,391
Maintenance, repairs and equipment rental	47,468	113,805	161,273	98,248
Insurance	19,848	5,143	24,991	24,967
Travel and conferences	15,903	4,618	20,521	25,540
Depreciation	96,417	7,008	103,425	111,663
Reference lab and supplies	114,653	-0-	114,653	41,523
Contractual and professional	243,826	191,609	435,435	420,784
Vehicle expenses	-0-	7,130	7,130	16,321
Interest	-0-	2,011	2,011	5,110
Other taxes and licenses	8,197	27,634	35,831	36,261
Occupancy	1,201	52,821	54,022	47,683
	<u>\$2,641,679</u>	<u>\$1,038,231</u>	<u>\$3,679,910</u>	<u>\$3,138,109</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, 2010 as follows:

Purpose restriction accomplished:

Grants	
WV Dept of Health and Human Resources	\$ 584,478
Department of Health and Human Services	1,433,491
West Virginia Development Office	10,787
Sisters of St. Joseph Wellness Foundation	24,312
Other	32,083
	<u>\$2,085,151</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, 2010 and 2009

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

### **Notes to Financial Statements**

**January 31, 2010 with Comparative Totals  
as of January 31, 2009**

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

Certificates of deposit totaling \$157,277 at January 31, 2010 are included in cash in the accompanying financial statements. The certificates bear interest at rates ranging from .10% to 1.49% 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, 2010 and 2009. 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 – Accounts Receivable – Former Employee**

Beginning in April, 2008, the former CFO of the Organization embezzled a total of \$389,606 from its operating checking account until its discovery in July, 2009.

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 \$389,000 for the property, the Organization will receive a substantial portion of the total embezzlement as restitution upon its sale. Additionally, restitution payments are currently being made by the former CFO. As of January 31, 2010, the Organization had received \$20,000 in restitution, leaving a balance owed to the Organization of \$369,606. Therefore, based upon these circumstances, the entire amount of the embezzlement at January 31, 2010 is recorded as an accounts receivable in the accompanying financial statements.

The Organization is also computing interest on the amount owed by the former CFO on an annual basis in accordance with the terms of an agreement that was negotiated. Due to the nature of the calculation and the perceived collectability of the amount, the accrued interest on the accounts receivable is not recorded as of January 31, 2010.

#### **Note I – Subsequent Events**

Subsequent events were evaluated through August 19, 2010, which is the date the financial statements were available to be issued.

## Supplementary Information

# Herman & Cormany

## Certified Public Accountants, A.C.

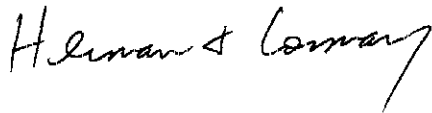
---

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, 2010 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  
August 19, 2010

**Tug River Health Association, Inc.**  
**Schedule of Expenditures by Location**  
**For the Year Ended January 31, 2010**

	<u>Total</u>	<u>Gary</u>	<u>Northfork</u>	<u>Dental Clinic</u>	<u>Black Lung</u>
<b>Expenditures</b>					
Salaries	\$1,965,588	\$609,853	\$618,805	\$220,448	\$173,290
Payroll taxes and fringe benefits	417,836	190,726	88,267	27,702	33,855
Medical supplies and pharmacy	137,056	22,783	16,546	35,967	14,833
Vehicle expenses	7,130	1,450	-0-	-0-	4,500
Telephone and utilities	128,818	49,026	22,914	4,239	4,833
Travel and conferences	20,521	7,196	1,111	2,542	8,392
Reference lab and supplies	114,653	41,153	44,146	12,346	413
Office expenses and advertising	71,320	7,195	10,256	-0-	14,943
Contractual and professional	435,435	212,843	23,731	-0-	160,848
Equipment rental	47,886	25,758	14,028	-0-	-0-
Interest	2,011	721	1,290	-0-	-0-
Depreciation	103,425	62,667	21,400	-0-	3,783
Insurance	24,991	12,903	6,718	-0-	-0-
Repairs and maintenance	113,387	86,590	11,850	2,682	511
Dues, fees and licenses	14,971	7,118	3,505	-0-	2,659
Occupancy	54,022	-0-	-0-	-0-	52,821
Other taxes	20,860	10,664	5,605	195	3,984
<b>Total Expenditures</b>	<u>\$3,679,910</u>	<u>\$1,348,646</u>	<u>\$890,172</u>	<u>\$306,121</u>	<u>\$479,665</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>
\$	-0-	\$34,093	\$179,395	\$108,652	\$21,052
	-0-	14,196	35,154	25,682	2,254
	-0-	-0-	42,261	4,421	245
	-0-	1,180	-0-	-0-	-0-
	928	-0-	16,345	18,792	11,741
	10	19	824	379	48
	-0-	-0-	9,852	6,743	-0-
	19,989	40	11,842	1,587	5,468
	-0-	-0-	11,475	5,883	20,655
	-0-	-0-	8,100	-0-	-0-
	-0-	-0-	-0-	-0-	-0-
	-0-	6,095	212	-0-	9,268
	-0-	-0-	1,960	446	2,964
	-0-	-0-	5,777	4,359	1,618
	-0-	-0-	1,142	423	124
	-0-	-0-	1,201	-0-	-0-
	-0-	-0-	408	4	-0-
	<u>\$20,927</u>	<u>\$55,623</u>	<u>\$325,948</u>	<u>\$177,371</u>	<u>\$75,437</u>

**Tug River Health Association, Inc.**  
**Schedule of Expenses by Service Type**  
**For the Year Ended January 31, 2010**

	<u>Total</u>	<u>Medical</u>	<u>Lab</u>	<u>X-Ray</u>	<u>Dental</u>
<b>Expenditures</b>					
Salaries	\$1,965,588	\$1,061,945	\$65,448	\$30,332	\$220,448
Payroll taxes and fringe benefits	417,836	-0-	-0-	-0-	-0-
Medical supplies and pharmacy	137,056	97,291	-0-	3,798	35,967
Vehicle expenses	7,130	-0-	-0-	-0-	-0-
Telephone and utilities	128,818	2,196	-0-	-0-	-0-
Travel and conferences	20,521	5,364	14	-0-	1,315
Reference lab and supplies	114,653	-0-	102,306	-0-	12,347
Office expenses and advertising	71,320	-0-	-0-	-0-	-0-
Contractual and professional	435,435	182,794	-0-	1,100	-0-
Equipment rental	47,886	-0-	-0-	-0-	-0-
Interest	2,011	-0-	-0-	-0-	-0-
Depreciation	103,425	32,652	-0-	-0-	6,095
Insurance	24,991	-0-	-0-	-0-	-0-
Repairs and maintenance	113,387	20,257	5,960	3,824	-0-
Dues, fees and licenses	14,971	8,203	-0-	-0-	-0-
Occupancy	54,022	-0-	-0-	-0-	-0-
Other taxes	<u>20,860</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Expenditures</b>	<u><b>\$3,679,910</b></u>	<u><b>\$1,410,702</b></u>	<u><b>\$173,728</b></u>	<u><b>\$39,054</b></u>	<u><b>\$276,172</b></u>

See independent auditors' report on supplementary information.



<u>Other Health</u>	<u>Admin.</u>	<u>Facility</u>	<u>Fringes</u>
\$167,485	\$395,759	\$ 24,171	\$ -0-
-0-	-0-	-0-	417,836
-0-	-0-	-0-	-0-
-0-	7,130	-0-	-0-
-0-	101,493	25,129	-0-
9,208	4,620	-0-	-0-
-0-	-0-	-0-	-0-
-0-	45,546	25,774	-0-
18,196	191,139	42,206	-0-
-0-	47,886	-0-	-0-
-0-	2,011	-0-	-0-
-0-	7,009	57,669	-0-
-0-	5,143	19,848	-0-
-0-	65,918	17,428	-0-
-0-	6,768	-0-	-0-
-0-	52,821	1,201	-0-
-0-	20,860	-0-	-0-
<u>\$194,889</u>	<u>\$954,103</u>	<u>\$213,426</u>	<u>\$417,836</u>

# Herman & Cormany

## Certified Public Accountants, A.C.

---

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, 2010, and have issued our report thereon dated August 19, 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2010-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

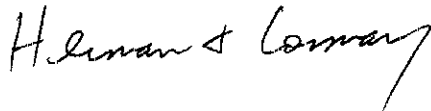
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 2010-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

#### 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 item 2010-1.

Tug River Health Association, Inc.'s response to the findings identified in our audit is 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.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and the 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  
August 19, 2010

# Herman & Cormany

## Certified Public Accountants, A.C.

---

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. 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, 2010. 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, 2010. 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 item 2010-1.

---

1031 Quarrier Street, Suite 511 • Charleston, WV 25301-2397 • (304) 345-2320 • (304) 345-2325 fax  
[www.herman-cormanycpas.com](http://www.herman-cormanycpas.com)



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

### Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-1.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a significant deficiency.

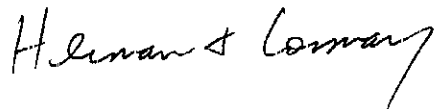
Tug River Health Association, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Tug River Health Association, Inc.'s response and, accordingly, we express no opinion on it.

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

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, 2010, and have issued our report thereon dated August 19, 2010. 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 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  
August 19, 2010

**Tug River Health Association, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended January 31, 2010**

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Disbursements/ Expenditures</u>
DIRECT AWARDS			
Department of Health and Human Services Community Health Centers Program	93.224	H80CS00701	<u>\$1,015,612</u>
Department of Health and Human Services Stimulus Funding			
ARRA-Grants to Health Center Programs	93.703	H8BCS12228	44,000
ARRA-Grants to Health Center Programs	93.703	C81CS13428	<u>161,857</u>
			<u>205,857</u>
PASS THROUGH AWARDS			
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	G100144	141,482
Coal Miners Respiratory Impairment Treatment Clinic and Services	93.965	G090100	<u>70,541</u>
			<u>212,023</u>
Total expenditures of federal awards			<u>\$1,433,492</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.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended January 31, 2010**

SIGNIFICANT DEFICIENCY

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.

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

*Current Status:* The condition was in existence during the year ended January 31, 2010 and is reported as part of deficiency 2010-1 in the schedule of findings and questioned costs

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.

*Recommendations:* 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

*Current Status:* The Organization hired a CPA as its CFO, and she is preparing the appropriate board reports on a monthly basis



**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended January 31, 2010**

**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:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
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? \_\_\_ Yes \_\_x\_\_ No

**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended January 31, 2010**

**Section II - Financial Statement Findings**

**MATERIAL WEAKNESS**

*2010-1 Misappropriation of Funds Caused by Improper Segregation of Duties*

*Condition:* The former CFO of the organization embezzled a total of \$389,606 of funds during the years ended January 31, 2010 and 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 insufficient segregation of duties and properly functioning internal controls, including the design of the accounting software, allowed for the misappropriation of funds 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 come in on a quarterly basis to perform agreed upon procedures agreements on the internal controls of the Organization. We have satisfactorily addressed review questions raised by HRSA's Division of Financial Integrity.

**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.