

**Tug River Health Association, Inc.**

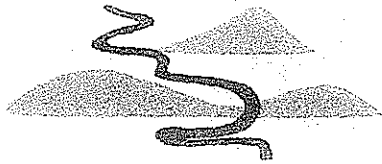
**Financial Statements  
and Supplementary Information**

**January 31, 2011**

DHHR - Finance

NOV 10 2011

Date Received



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

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## **GARY CENTER**

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November 7, 2011

Kimberly D. Merritt, Director  
Division of Compliance and Monitoring  
State of West Virginia-Department of Health and Human Resources  
Office of Internal Control and Policy Development  
Division of Compliance and Monitoring  
One Davis Square, Suite 401  
Charleston, WV 25301

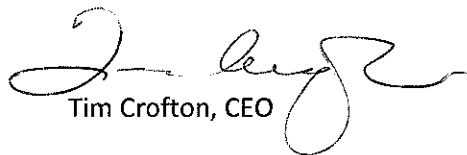
Dear Ms. Merritt:

Thank you for the reminder regarding the requirement of audit reporting by October 31, 2011.

Enclosed, please find Financial Statements and Supplementary Information for the period ending January 31, 2011, prepared by the audit firm of Herman and Cormany.

If your office is in need of further information, please be in touch with me at this office.

Sincerely,



Tim Crofton, CEO

Enclosure

# Tug River Health Association, Inc.

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# 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

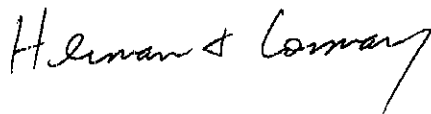
We have audited the accompanying statement of financial position of Tug River Health Association, Inc. (a nonprofit organization) as of January 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's 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 2010 financial statements and, in our report dated August 19, 2010, 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, 2011, 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 16, 2011 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.

DHHR - Finance



NOV 10 2011

Charleston, WV  
August 16, 2011

Date Received



**Tug River Health Association, Inc.**

**Statement of Financial Position**

**January 31, 2011, with Comparative Totals  
as of January 31, 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash on hand and in bank	\$ 797,950	\$ 946,919
Grants receivable	41,716	56,278
Due from patients, net of allowance for uncollectible accounts of \$346,290 in 2011 and \$346,495 in 2010	285,832	220,819
Accounts receivable		
Former employee	360,607	369,606
Employee signing advance	10,000	-0-
Inventories	19,539	20,486
Prepays and deposits	14,948	8,877
Property and equipment	<u>940,539</u>	<u>920,882</u>
<b>Total Assets</b>	<u>\$2,471,131</u>	<u>\$2,543,867</u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 37,610	\$ 82,836
Accrued taxes and withholding	4,177	4,243
Accrued salaries and annual leave	137,609	128,072
Deferred revenues	<u>82,099</u>	<u>96,497</u>
<b>Total Liabilities</b>	<u>261,495</u>	<u>311,648</u>
<b>Net Assets</b>		
Unrestricted	<u>2,209,636</u>	<u>2,232,219</u>
<b>Total Net Assets</b>	<u>2,209,636</u>	<u>2,232,219</u>
<b>Total Liabilities and Net Assets</b>	<u>\$2,471,131</u>	<u>\$2,543,867</u>

See independent auditors' report and notes to financial statements.

# Tug River Health Association, Inc.

## Statement of Activities

For the Year Ended January 31, 2011, with Comparative Totals  
For the Year Ended January 31, 2010

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenues, Gains and Other Support</b>				
Patient revenues	\$2,269,480	\$ -0-	\$2,269,480	\$2,070,158
Grants				
West Virginia Dept. of Health and Human Resources	-0-	469,308	469,308	584,478
Department of Health and Human Services	-0-	1,433,054	1,433,054	1,433,491
West Virginia Development Office	-0-	13,801	13,801	10,787
Marshall University Research Corp	-0-	9,939	9,939	-0-
WVU Research Corporation	-0-	20,000	20,000	-0-
Sisters of St. Joseph Wellness Foundation	-0-	-0-	-0-	24,312
Other	-0-	9,991	9,991	32,083
Interest	5,871	-0-	5,871	6,058
Net assets released from restrictions:				
Satisfaction of grant activities	<u>1,956,093</u>	<u>(1,956,093)</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Revenues, Gains, and Other Support</b>	<u>4,231,444</u>	<u>-0-</u>	<u>4,231,444</u>	<u>4,161,367</u>
<b>Expenses and Losses</b>				
Grants				
West Virginia Dept. of Health and Human Resources	469,308	-0-	469,308	584,478
Department of Health and Human Services	1,433,054	-0-	1,433,054	1,433,491
West Virginia Development Office	13,801	-0-	13,801	10,787
Marshall University Research Corp	9,939	-0-	9,939	-0-
WVU Research Corporation	20,000	-0-	20,000	-0-
Sisters of St. Joseph Wellness Foundation	-0-	-0-	-0-	24,312
Other	9,991	-0-	9,991	32,083
Non-grant clinical services	1,167,451	-0-	1,167,451	640,656
Clinic administrative costs	<u>1,130,483</u>	<u>-0-</u>	<u>1,130,483</u>	<u>954,103</u>
<b>Total Expenses and Losses</b>	<u>4,254,027</u>	<u>-0-</u>	<u>4,254,027</u>	<u>3,679,910</u>
<b>Change in Net Assets</b>	(22,583)	-0-	(22,583)	481,457
<b>Net Assets, Beginning of Year</b>	<u>2,232,219</u>	<u>-0-</u>	<u>2,232,219</u>	<u>1,750,762</u>
<b>Net Assets, End of Year</b>	<u>\$2,209,636</u>	<u>\$ -0-</u>	<u>\$2,209,636</u>	<u>\$2,232,219</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, 2011, with  
Comparative Totals for the Year Ended January 31, 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (22,583)	\$ 481,457
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	156,651	103,425
Change in bad debt reserve	(250)	99,321
Decrease in grants receivable	14,562	93,399
Increase in accounts receivable	(64,763)	(18,634)
Decrease (increase) in accounts receivable – former employee	8,999	(202,844)
Increase in employee signing advance	(10,000)	-0-
Decrease (increase) in inventories	947	(754)
Increase in prepaids and deposits	(6,071)	(1,216)
(Decrease) increase in accounts payable	(45,226)	45,639
Decrease in accrued taxes and withholdings	(66)	(13,484)
Increase in accrued salaries and annual leave	9,537	24,551
Decrease in deferred revenues	<u>(14,398)</u>	<u>(31,201)</u>
<b>Net Cash Provided By Operating Activities</b>	<u>27,339</u>	<u>579,659</u>
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	<u>(176,308)</u>	<u>(270,595)</u>
<b>Net Cash Used In Investing Activities</b>	<u>(176,308)</u>	<u>(270,595)</u>
 <b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	<u>-0-</u>	<u>(41,932)</u>
<b>Net Cash Used In Financing Activities</b>	<u>-0-</u>	<u>(41,932)</u>
 <b>Net (Decrease) Increase in Cash</b>	(148,969)	267,132
 <b>Cash – Beginning of Year</b>	<u>946,919</u>	<u>679,787</u>
 <b>Cash – End of Year</b>	<u>\$ 797,950</u>	<u>\$ 946,919</u>
 <b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>\$ 869</u>	<u>\$ 2,011</u>

See independent auditors' report and notes to financial statements.

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

## **Notes to Financial Statements**

**January 31, 2011 with Comparative Totals  
as of January 31, 2010**

### **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.

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, 2011, with Comparative Totals  
as of January 31, 2010

### 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, 2010, from which the summarized information was derived.

Advertising – Advertising costs are expensed as incurred. Advertising expense was \$21,612 and \$29,143 for the years ended January 31, 2011 and 2010, 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, 2011 and 2010 was \$156,651 and \$103,425, respectively. The classification of these capitalized items are classified in the accompanying financial statements as follows, with comparative totals as of January 31, 2010:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 129,058	\$ 129,058
Buildings and improvements	1,557,731	1,531,179
Vehicles, furniture and equipment	<u>683,096</u>	<u>588,595</u>
	2,369,885	2,248,832
Less accumulated depreciation	<u>1,429,346</u>	<u>1,327,950</u>
	<u>\$ 940,539</u>	<u>\$ 920,882</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 \$2,372,441 and \$2,544,324 for the years ended January 31, 2011 and 2010, respectively.

**Tug River Health Association, Inc.**

**Notes to Financial Statements**

**January 31, 2011 with Comparative Totals  
as of January 31, 2010**

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

Deferred Revenues – Deferred revenues at January 31, 2011, with comparative totals as of January 31, 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Grant funds received in advance of expenditures		
WV Department of Health and Human Resources	\$64,816	\$79,214
WV Health Care Authority	<u>17,283</u>	<u>17,283</u>
	<u>\$82,099</u>	<u>\$96,497</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 – 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, 2011 with Comparative Totals  
as of January 31, 2010

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

Expenditures for the year ended January 31, 2011, with comparative totals as of January 31, 2010, were as follows:

	<u>Clinical Services</u>	<u>General Operating</u>	<u>Total</u>	<u>2010 Total</u>
Salaries and wages	\$1,900,319	\$ 459,505	\$2,359,824	\$1,965,588
Payroll taxes and benefits	410,750	99,321	510,071	417,836
Medical supplies and pharmacy	171,049	-0-	171,049	137,056
Office expense and advertising	206	32,788	32,994	71,320
Telephone and utilities	34,303	100,275	134,578	128,818
Maintenance, repairs and equipment rental	32,807	113,565	146,372	161,273
Insurance	6,371	19,131	25,502	24,991
Travel and conferences	20,601	6,084	26,685	20,521
Depreciation	141,813	14,838	156,651	103,425
Reference lab and supplies	149,280	58,872	208,152	114,653
Contractual and professional	188,029	168,309	356,338	435,435
Vehicle expenses	-0-	3,720	3,720	7,130
Interest	716	153	869	2,011
Other taxes and licenses	15,524	41,297	56,821	35,831
Occupancy	4,401	60,000	64,401	54,022
	<u>\$3,076,169</u>	<u>\$1,177,858</u>	<u>\$4,254,027</u>	<u>\$3,679,910</u>

### Note C – 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, 2011 as follows:

Purpose restriction accomplished:

Grants

WV Dept of Health and Human Resources	\$ 469,308
Department of Health and Human Services	1,433,054
West Virginia Development Office	13,801
Marshall University Research Corp	9,939
WVU Research Corporation	20,000
Other	<u>9,991</u>
	<u>\$1,956,093</u>

### Note D – 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, 2011 and 2010.

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

## **Notes to Financial Statements**

**January 31, 2011 with Comparative Totals  
as of January 31, 2010**

### **Note E – Certificates of Deposit**

Certificates of deposit totaling \$157,429 at January 31, 2011 are included in cash in the accompanying financial statements. The certificates bear interest at rates ranging from .15% to .75% and mature every six months with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

### **Note F – Concentration of Funds**

The Organization receives a significant portion of its support from federal and state government grants and patient revenues at January 31, 2011 and 2010. 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 G – Accounts Receivable – Former Employee**

Beginning in April, 2008, the former CFO of the Organization embezzled a total of \$389,607 from its operating checking account until its discovery in July, 2010.

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 were being made by the former CFO until she was incarcerated in February, 2011. As of January 31, 2011, the Organization had received \$29,000 in restitution, leaving a balance owed to the Organization of \$360,607. Despite the fact that the restitution payments due to the former CFO's incarceration has temporarily ceased, the Organization believes that based upon the proceeds that will be received when the property is sold and the former CFO's claims to make restitution, the entire amount due from the embezzlement 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, 2011.

### **Note H – Subsequent Events**

Subsequent events were evaluated through August 16, 2011, which is the date the financial statements were available to be issued.

## **Supplementary Information**

# Herman & Cormany

## Certified Public Accountants, A.C.

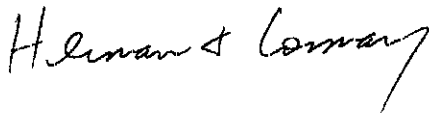
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Accountants & Consultants

### Independent Auditors' Report on Supplementary Information

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

We have audited the financial statements of Tug River Health Association, Inc as of and for the year ended January 31, 2011, and have issued our report thereon dated August 16, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Charleston, WV  
August 16, 2011

**Tug River Health Association, Inc.**  
**Schedule of Expenditures by Location**  
**For the Year Ended January 31, 2011**

	<u>Total</u>	<u>Gary</u>	<u>Northfork</u>	<u>Dental Clinic</u>	<u>Black Lung</u>
<b>Expenditures</b>					
Salaries	\$2,359,824	\$ 701,809	\$583,395	\$354,921	\$306,484
Payroll taxes and fringe benefits	510,071	196,620	80,361	52,635	42,720
Medical supplies and pharmacy	171,049	33,630	19,231	61,234	6,846
Vehicle expenses	3,720	1,338	-0-	-0-	2,382
Telephone and utilities	134,578	51,464	27,574	3,008	4,661
Travel and conferences	26,685	9,988	4,035	180	11,039
Reference lab and supplies	208,152	93,172	51,088	19,767	2,224
Office expenses and advertising	32,994	8,276	1,844	1,421	742
Contractual and professional	356,338	232,417	18,633	-0-	79,873
Equipment rental	45,827	23,894	12,998	-0-	-0-
Interest	869	153	716	-0-	-0-
Depreciation	156,651	87,120	23,074	-0-	12,308
Insurance	25,502	19,989	2,489	-0-	1,840
Repairs and maintenance	100,545	67,789	15,671	1,472	16
Dues, fees and licenses	41,075	27,462	7,733	2,761	1,143
Occupancy	64,401	-0-	-0-	-0-	60,000
Other taxes	15,746	6,778	4,963	190	3,390
<b>Total Expenditures</b>	<u>\$4,254,027</u>	<u>\$1,561,899</u>	<u>\$853,805</u>	<u>\$497,589</u>	<u>\$535,668</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-	\$40,457	\$277,922	\$ 81,513	\$13,323
-0-	12,382	94,739	23,721	6,893
-0-	-0-	44,512	5,596	-0-
-0-	-0-	-0-	-0-	-0-
1,035	-0-	18,373	17,298	11,165
24	-0-	1,247	172	-0-
399	305	26,723	8,727	5,747
13,017	-0-	7,485	209	-0-
-0-	-0-	-0-	8,083	17,332
-0-	-0-	8,935	-0-	-0-
-0-	-0-	-0-	-0-	-0-
-0-	22,800	2,081	-0-	9,268
-0-	-0-	-0-	-0-	1,184
-0-	-0-	8,861	3,285	3,451
-0-	-0-	1,225	751	-0-
-0-	-0-	4,401	-0-	-0-
-0-	-0-	423	2	-0-
<u>\$14,475</u>	<u>\$75,944</u>	<u>\$496,927</u>	<u>\$149,357</u>	<u>\$68,363</u>



**Tug River Health Association, Inc.**  
**Schedule of Expenses by Service Type**  
**For the Year Ended January 31, 2011**

	<u>Total</u>	<u>Medical</u>	<u>Lab</u>	<u>X-Ray</u>	<u>Dental</u>
<b>Expenditures</b>					
Salaries	\$2,359,824	\$1,241,814	\$69,430	\$33,366	\$354,921
Payroll taxes and fringe benefits	510,071	-0-	-0-	-0-	-0-
Medical supplies and pharmacy	171,049	109,510	-0-	-0-	61,539
Vehicle expenses	3,720	-0-	-0-	-0-	-0-
Telephone and utilities	134,578	2,618	-0-	-0-	-0-
Travel and conferences	26,685	8,356	-0-	-0-	180
Reference lab and supplies	208,152	-0-	97,809	4,369	19,767
Office expenses and advertising	32,994	-0-	-0-	-0-	-0-
Contractual and professional	356,338	120,277	-0-	1,200	-0-
Equipment rental	45,827	-0-	-0-	-0-	-0-
Interest	869	716	-0-	-0-	-0-
Depreciation	156,651	47,188	-0-	-0-	22,800
Insurance	25,502	-0-	1,840	-0-	-0-
Repairs and maintenance	100,545	4,369	-0-	1,270	-0-
Dues, fees and licenses	41,075	15,524	-0-	-0-	-0-
Occupancy	64,401	-0-	-0-	-0-	-0-
Other taxes	15,746	-0-	-0-	-0-	-0-
<b>Total Expenditures</b>	<u>\$4,254,027</u>	<u>\$1,550,372</u>	<u>\$169,079</u>	<u>\$40,205</u>	<u>\$459,207</u>

See independent auditors' report on supplementary information.

<u>Other Health</u>	<u>Admin.</u>	<u>Facility</u>	<u>Fringes</u>
\$175,007	\$459,505	\$25,781	\$ -0
-0-	52,250	-0-	457,821
-0-	-0-	-0-	-0-
-0-	3,720	-0-	-0-
-0-	100,275	31,685	-0-
12,065	6,084	-0-	-0-
-0-	58,872	27,335	-0-
-0-	32,788	206	-0-
12,722	168,309	53,830	-0-
-0-	45,827	-0-	-0-
-0-	153	-0-	-0-
-0-	14,838	71,825	-0-
-0-	19,131	4,531	-0-
-0-	67,738	27,168	-0-
-0-	25,551	-0-	-0-
-0-	60,000	4,401	-0-
-0-	15,746	-0-	-0-
<u>\$199,794</u>	<u>\$1,130,787</u>	<u>\$246,762</u>	<u>\$457,821</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, 2011, and have issued our report thereon dated August 16, 2011. 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 *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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting and is listed as item 2011-1. 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.

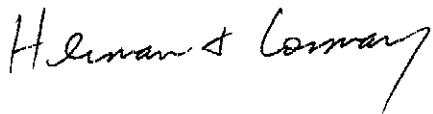
To the Board of Directors  
Tug River Health Association, Inc.  
Page two

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 item 2011-1.

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 16, 2011

# Herman & Cormany

## Certified Public Accountants, A.C.

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Accountants & Consultants

### **Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 Tug River Health Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tug River Health Association, Inc.'s major federal programs for the year ended January 31, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2011. 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 2011-1.

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### 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 to determine the 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 was not designed to 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 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 did not identify an deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

*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 2011-1 to be a significant deficiency.

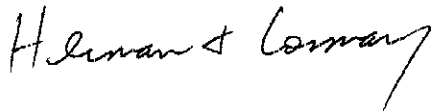
Tug River Health Association, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Tug River Health Association, Inc.'s response and, accordingly, we express no opinion on the response.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Tug River Health Association, Inc. as of and for the year ended January 31, 2011, and have issued our report thereon dated August 16, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 16, 2011

**Tug River Health Association, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended January 31, 2011**

<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	\$1,015,612
Department of Health and Human Services Stimulus Funding			
ARRA-Grants to Health Center Programs	93.703	H8BCS12228	132,000
ARRA-Grants to Health Center Programs	93.703	C81CS13428	<u>170,765</u>
			<u>302,765</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	G100144	41,625
Coal Miners Respiratory Impairment Treatment Clinic and Services	93.965	G110375	48,052
Grants to States for Loan Repayment Program	93.165	G101027	<u>25,000</u>
			<u>114,677</u>
Total expenditures of federal awards			<u>\$1,433,054</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**

MATERIAL WEAKNESS

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

*Condition:* The former CFO of the organization embezzled a total of \$389,607 of funds during the years ended January 31, 2011 and 2010.

*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 has improved to where controls have been put in place to prevent a misappropriation of funds, but a segregation of duties condition exists and is listed as item 2011-1.

**Tug River Health Association, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended January 31, 2011**

**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?      Yes   x   No
- Noncompliance material to financial statements notes?      Yes   x   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?      Yes   x   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
93.703	ARRA-Grants to Health Center Programs

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, 2011**

**Section II - Financial Statement Findings**

**SIGNIFICANT DEFICIENCY**

*2011-1 Segregation of Duties*

*Condition:* The CFO of the Organization performs multiple accounting functions, including bank reconciliations, maintenance of the general ledger, recording of deposits and cash disbursements, etc.

*Criteria:* An appropriate segregation of duties should be in place to prevent any future opportunities for a misappropriation of funds.

*Cause:* Internal controls are designed to provide a segregation of duties to prevent fraud or a misappropriation of funds from occurring.

*Effect:* An insufficient segregation of duties over accounting functions and the related software could cause opportunities for fraud or improper recording of accounting transactions to occur.

*Recommendation:* Due to the limited budget of the Organization and its small accounting staff, a segregation of duties is always going to be an issue as it relates to the recording of accounting transactions. We recommend that duties be segregated as much as possible, utilizing other qualified staff or board members to provide additional oversight over transactions that occur.

*Response:* We agree with the recommendation and will continue to divide accounting responsibilities amongst staff and board members, where possible, to create a proper segregation of duties. Additionally, an outside CPA firm will continue to perform quarterly agreed-upon procedures to test the functioning of internal controls on an ongoing basis.

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

The findings are the same as reported in Section II.