

**CLAY-BATTELLE
HEALTH SERVICES ASSOCIATION

INDEPENDENT AUDITOR'S REPORT AND
RELATED FINANCIAL STATEMENTS

MAY 31, 2014 AND 2013**

DHHR - Finance

OCT 27 2014

Date Received



■ P.O. Box 72, Blacksville, WV 26521 ■ 5861 Mason Dixon Highway ■ 304.432.8211 ■ Fax 304.432-8213

October 22, 2014

DHHS
Office of Internal Control and Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

To Whom It May Concern,

Please find enclosed the Independent Auditor's Report and Related Financial Statements for the Clay-Battelle Health Services Association for the period June 1, 2013 – May 31, 2014.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Janice Morris".

Janice Morris, DDS, CEO

DHHR - Finance

OCT 27 2014

Date Received

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clay-Battelle Health Services Association
Blacksville, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Clay-Battelle Health Services Association (a nonprofit organization), which comprise the balance sheets as of May 31, 2014 and 2013, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clay-Battelle Health Services Association as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state grant receipts and expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2014, on our consideration of Clay-Battelle Health Services Association'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* in considering Clay-Battelle Health Services Association's internal control over financial reporting and compliance.

Tetush & Battitt, PLLC

October 10, 2014

DHHR - Finance

OCT 27 2014

Date Received

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
BALANCE SHEETS
MAY 31,

	2014	2013
ASSETS		
Current Assets		
Cash and equivalents	\$ 179,353	\$ 152,199
Accounts receivable, net	142,245	121,691
Settlements due from third-party payors	12,000	9,000
Grants receivable	35,651	-
Inventory	11,406	8,148
Prepaid assets	26,784	17,856
Other assets	31,125	28,744
Total current assets	<u>438,564</u>	<u>337,638</u>
Noncurrent Assets		
Land, buildings and equipment (net)	<u>894,697</u>	<u>964,276</u>
TOTAL ASSETS	<u><u>\$ 1,333,261</u></u>	<u><u>\$ 1,301,914</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable, current portion	\$ 32,698	\$ 34,506
Line of credit	39,984	37,448
Accounts payable	40,105	24,196
Accrued other liabilities	92,620	71,483
Total current liabilities	<u>205,407</u>	<u>167,633</u>
Long-Term Liabilities		
Note payable, noncurrent portion	<u>368,239</u>	<u>400,801</u>
Total liabilities	<u>573,646</u>	<u>568,434</u>
Net Assets		
Unrestricted	<u>759,615</u>	<u>733,480</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,333,261</u></u>	<u><u>\$ 1,301,914</u></u>

The accompanying independent auditor's report and notes are integral parts of these statements.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31,**

	2014	2013
Changes in Unrestricted Net Assets		
Unrestricted revenues and support		
Net patient service revenue	\$ 1,281,799	\$ 1,181,512
Grant funding	968,083	891,549
Donated drugs and supplies	235,238	169,958
Income from pharmacy contract	70,849	61,798
EHR incentive payments	25,500	85,500
Other revenue	39,290	28,359
Total unrestricted revenues and support	<u>2,620,759</u>	<u>2,418,676</u>
Expenses		
Salaries and wages	1,707,905	1,547,767
Donated drugs and supplies	235,238	169,958
Supplies	174,939	140,660
Utilities and telephone	57,210	70,370
Depreciation and amortization	95,070	104,977
Legal and accounting	30,534	19,574
Repairs and maintenance	98,283	131,262
Provision for uncollectible accounts	29,269	22,211
Interest	26,141	29,322
Insurance	30,274	30,360
Advertising	10,187	9,841
Rent	16,725	15,335
Continuing education	6,241	6,055
Other	76,608	59,836
Total expenses	<u>2,594,624</u>	<u>2,357,528</u>
Operating income (loss)	26,135	61,148
Other Income		
Capital improvement grants	<u>-</u>	<u>-</u>
Change in unrestricted net assets	26,135	61,148
Net assets - unrestricted June 1,	<u>733,480</u>	<u>672,332</u>
Net assets - unrestricted May 31,	<u>\$ 759,615</u>	<u>\$ 733,480</u>

The accompanying independent auditor's report and notes are integral parts of these statements.

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31,

	2014	2013
Cash Flows from Operating Activities		
Change in unrestricted net assets	\$ 26,135	\$ 61,148
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
(Income) loss from pharmacy contract	(70,849)	(61,798)
Depreciation and amortization	95,070	104,977
Provision for uncollectible accounts	29,269	22,211
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(49,823)	(7,382)
Decrease (increase) in settlements due from third-party payors	(3,000)	11,787
Decrease (increase) in grants receivable	(35,651)	-
Decrease (increase) in prepaid assets	(8,928)	(16,408)
Decrease (increase) in other assets	68,468	34,522
Increase (decrease) in accounts payable	15,909	(9,375)
Increase (decrease) in accrued expenses	17,879	(1,478)
Net cash provided by (used in) operating activities	<u>84,479</u>	<u>138,204</u>
Cash Flows from Investing Activities		
Payments for property and equipment	<u>(25,491)</u>	<u>(5,063)</u>
Net cash provided by (used in) investing activities	<u>(25,491)</u>	<u>(5,063)</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	10,286	-
Payments on notes payable and line of credit	<u>(42,120)</u>	<u>(43,911)</u>
Net cash provided by (used in) financing activities	<u>(31,834)</u>	<u>(43,911)</u>
Increase (decrease) in cash	27,154	89,230
Cash at beginning of year	<u>152,199</u>	<u>62,969</u>
Cash at end of year	<u><u>\$ 179,353</u></u>	<u><u>\$ 152,199</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u><u>\$ 26,141</u></u>	<u><u>\$ 29,322</u></u>

The accompanying independent auditor's report and notes are integral parts of these statements.

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Organization

Clay-Battelle Health Services Association, (Association) is a non-profit, non-stock corporation organized and existing under the laws of West Virginia. The Association was established for the purpose of providing primary care services to the residents of Monongalia and Wetzel Counties, West Virginia and the surrounding area. The Association is recognized as a Federally Qualified Health Center (FQHC).

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of liquid assets with original maturities of less than three months, excluding assets whose use is limited by the Association.

Accounts Receivable, net

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts, Medicaid/Medicare, and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable account receivable. The allowance for uncollectible accounts at May 31, 2014 and 2013, was \$16,853 and \$2,500, respectively.

The accompanying independent auditor's report is an integral part of these notes.

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Advertising and Interest Costs

All advertising and interest costs incurred during the years ended May 31, 2014 and 2013, have been expensed.

Property and Equipment

Property and equipment are reported at cost for purchased items and at fair value for contributed items. Depreciation is computed by the straight-line method based on estimated service lives established by the American Hospital Association. The Association's policy is to capitalize assets whose expected life is in excess of one year and cost (or fair value) is above a threshold established by the Board. Equipment acquired under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Normal repairs and maintenance are expensed, whereas significant improvements which materially increase values or extend useful lives are capitalized and depreciated. Upon sale or retirement, the related cost and accumulated depreciation of capitalized assets are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

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

Inventory

Inventory is valued at cost (first-in, first-out method), which approximates market.

Charity Care

The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Association does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The accompanying independent auditor's report is an integral part of these notes.

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION NOTES TO FINANCIAL STATEMENTS (CONT'D)

Donor Restrictions

Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Economic Dependency and Geographic Concentration

The Association generates a substantial portion of its patient service revenue from services to Medicaid and Medicare beneficiaries. Changes in payment rates or methodologies by those programs could, therefore, significantly impact operations. Patient service revenue is primarily limited to services provided to residents in the Monongalia and Wetzel Counties, West Virginia. General economic conditions in the area significantly influence the Association's ability to collect fees for services rendered.

Net Patient Service Revenue

The Association has agreements with third-party payors that provide for payments to the Association at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Association has included in net patient service revenues adjustments of approximately \$14,007 in 2014 and \$10,556 in 2013 related to its estimates of the ultimate settlement under these third-party arrangements.

Income Taxes

The Association is exempt from federal and state income taxes under section 501 (c)(3) of the Internal Revenue Code. All required federal business income tax returns for the Associations have been filed up to, and including, the tax year ended May 31, 2013. The Association's federal income tax returns for 2013, 2012, and 2011 remain subject to examination by the Internal Revenue Service ("IRS").

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

2. Accounts Receivable

Accounts receivable and the allowance for contractual allowances, and uncollectable accounts consist of the following at May 31,:

	2014	2013
Gross patient receivable	\$ 198,098	\$ 163,691
Less: Allowance for uncollectible accounts	(16,853)	(2,500)
Allowance for contractual adjustments	<u>(39,000)</u>	<u>(39,500)</u>
Accounts receivable, net	<u>\$ 142,245</u>	<u>\$ 121,691</u>

3. Prepaid Assets

Prepaid assets consist of the following at May 31,:

	2014	2013
Maintenance Contracts	\$ 6,388	\$ 6,230
Insurance	<u>20,396</u>	<u>11,626</u>
	<u>\$ 26,784</u>	<u>\$ 17,856</u>

4. Land, Buildings and Equipment

The following is a summary of land, buildings, and equipment at May 31,:

	2014	2013
Land and improvements	\$ 62,662	\$ 62,662
Buildings and improvements	1,060,491	1,061,004
Equipment and furniture	<u>765,136</u>	<u>739,132</u>
	1,888,289	1,862,798
Less: Accumulated depreciation	<u>(993,592)</u>	<u>(898,522)</u>
Total	<u>\$ 894,697</u>	<u>\$ 964,276</u>

Depreciation expense was \$95,070 and \$104,977 for the year ended May 31, 2014 and 2013, respectively.

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

5. Notes Payable

Notes payable consisted of the following at May 31,:

	2014	2013
WesBanco Bank, payable in monthly installments of \$1,130, including interest at an adjustable rate (currently at 6.25%), through, May 2021. Secured by deed of trust.	\$ 75,761	\$ 84,241
WesBanco Bank, payable in monthly installments of \$3,789, including interest at an adjustable rate (currently at 5.75%), through October 2023. Secured by deed of trust and other assets of the entity.	<u>325,176</u>	<u>351,066</u>
Less: current maturities	<u>(32,698)</u>	<u>(34,506)</u>
Long-term debt, excluding current maturities	<u>\$ 368,239</u>	<u>\$ 400,801</u>

Future Maturities for years ending May 31, are as follows:

2015	\$ 32,698
2016	37,955
2017	40,246
2018	42,677
2019	45,254
Thereafter	<u>202,107</u>
	<u>\$ 400,937</u>

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

6. Line of Credit

The Association has a \$65,000 line of credit with WesBanco Bank. The amount drawn on the line was \$39,984 and \$37,448, at May 31, 2014 and 2013, respectively. The interest rate on the line is variable at prime plus 1%. As of May 31, 2014, the rate was 4.25%.

7. Accrued Other Liabilities

Accrued other liabilities consisted of the following at May 31,:

	2014	2013
Accrued payroll and related taxes and benefits	\$ 53,651	\$ 43,409
Accrued vacation	<u>33,690</u>	<u>28,074</u>
Total	<u>\$ 92,620</u>	<u>\$ 71,483</u>

8. Net Patient Service Revenue

The following is a summary of net patient service revenue for the year ended May 31,:

	2014	2013
Medical Charges	\$ 1,359,142	\$ 1,259,577
Dental Charges	<u>427,393</u>	<u>333,771</u>
General patient revenue	1,786,535	1,593,348
Less: Provision for charity care	<u>(273,031)</u>	<u>(270,256)</u>
Gross patient service revenue	1,513,504	1,323,092
Less: Contractual Allowances	<u>(231,705)</u>	<u>(141,580)</u>
Net patient service revenue	<u>\$ 1,281,799</u>	<u>\$ 1,181,512</u>

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

9. Primary Care Funding

The Association was awarded the Primary Care Support Grant of \$194,679 and \$202,972 for the year ended May 31, 2014 and 2013, respectively, by the West Virginia Department of Health and Human Resources. These grants are to provide uncompensated care and deficit funding so that the Association can continue to serve patients who cannot pay for services.

In addition, during the year ended May 31, 2014 and 2013, the Association received \$18,240 and \$36,480, for equipment, mortgage support and crisis operations.

10. Operating Lease

The Association operates a satellite facility in Wetzel County, West Virginia, in facilities that are leased for an annual rent of \$1.00. Estimated fair market values for the rental of these facilities are \$600 per month and have been included in the financial statements as other revenue and rent expense. The Association also entered into a lease agreement as part of the Pharmacy Contract (see Note 11).

11. Pharmacy Contract

The Association entered into an agreement with Tri-County Health Clinic, Inc. (Tri-County) to open and maintain a 340B Pharmacy to serve the patients of Clay-Battelle Health Services Association as well as other residents of the surrounding area. The pharmacy contract can be terminated by either party without cause or penalty by providing at least six month's written notice.

Under this contract, the Association and Tri-County share equal responsibility for all costs and revenues associated with opening and operating the pharmacy. Tri-County owns and maintains the pharmacy operations. The Association purchases the 340B pharmacy inventory and is recorded as inventory on the balance sheet of the Association. The Association entered into a 10 year lease for the location of the pharmacy for \$1,200 per month as part of the contract. Upon termination of the pharmacy by either party, the association would be liable for six months of rent payments totaling \$7,200.

The pharmacy opened in October 2008. For the years ended May 31, 2014 and 2013, the Association's income from the pharmacy contract was \$70,849 and \$61,798, respectively. The related asset of \$31,125 at May 31, 2014, and \$28,744 at May 31, 2013, is included in other assets on the balance sheet.

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

12. Classification of Expenses

Expenses are charged to program and support services based on the actual costs incurred. Those expenses which are not directly identifiable with any other specific function, but provide overall support and direction, have been included as general and administrative.

	2014	2013
General and administrative	\$ 328,062	\$ 293,259
Primary care services	<u>2,266,562</u>	<u>2,064,269</u>
	<u>\$ 2,594,624</u>	<u>\$ 2,357,528</u>

13. Malpractice Insurance

The Association's employees are covered by the Federal Tort Claims Act, and therefore, no separate professional liability insurance is carried by the Company. Pursuant to Section 224 of the Public Health Services Act, the Federal Tort Claims Act covers alleged negligent medical care during the performance of services of FQHC's when performing covered services at covered facilities.

14. Subsequent Events

The Association's management evaluated the effect subsequent events would have on the financial statements through October 10, 2014, which is the date the financial statements were available to be issued.

15. Charity Care

The amount of estimated charity care costs for the years ended May 31, 2014 and 2013, totaled \$396,529 and \$399,873 respectively. The estimated costs were calculated based upon a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated care charges associated with providing care to charity patients.

The accompanying independent auditor's report is an integral part of these notes.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Health and Human Services			
Direct Programs:			
Consolidated Health Centers (Community Health Centers)			
ACA Grants for New and Expanded Consolidated Health Centers	93.527 93.224	n/a n/a	\$ 470,794 <u>241,963</u>
<i>Total Consolidated Health Centers (Community Health Centers)</i>			<u>712,757</u>
Total Health Centers Cluster			<u>712,757</u>
Total Department of Health and Human Services			
Direct Programs			<u>712,757</u>
Passed-through Programs:			
West Virginia Primary Care Association Inc. - State Planning and Establishment Grants for the Affordable Care Act's Exchanges	93.525	n/a	<u>25,408</u>
<i>Total State Planning and Establishment Grants for the Affordable Care Act's Exchanges</i>			<u>25,408</u>

The accompanying independent auditor's report and notes are integral parts of this schedule.

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONT'D)
FOR THE YEAR ENDED MAY 31, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
West Virginia Primary Care Association Inc. - National Bioterrorism Hospital Preparedness Program	93.889	n/a	\$ <u>12,000</u>
<i>Total National Bioterrorism Hospital Preparedness Program</i>			<u>12,000</u>
Total Department of Health and Human Services Passed-through Programs			<u>37,408</u>
Total U.S. Department of Health and Human Services			<u>750,165</u>
Total Expenditures of Federal Awards			<u>\$ <u>750,165</u></u>

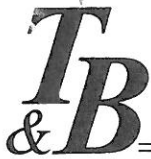
Note A – Basis of Presentation

The schedule of expenditures of Federal awards includes the federal grant activity of the Association 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.

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
 SCHEDULE OF STATE GRANT RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED MAY 31, 2014

<u>Identifying State Grant Information</u>	<u>Period of Time</u>	<u>Amount of Award</u>	<u>Receipt of Funds</u>	<u>Expenditures of Funds</u>
DHHR – Primary Care #G140108	07/01/13 - 06/30/14	\$ 194,679	\$ 194,679	\$ 194,679
DHHR – Mortgage Assistance #G140330	07/01/13 - 06/30/14	18,240	<u>18,240</u>	<u>18,240</u>
Total			<u>\$ 212,919</u>	<u>\$ 212,919</u>

The accompanying independent auditor's report and notes are integral parts of this schedule.



Tetrick & Bartlett, PLLC

Certified Public Accountants
Consultants

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

To the Board of Directors
Clay-Battelle Health Services Association
Blacksville, West Virginia

We have audited, in accordance with the 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, the financial statements of Clay-Battelle Health Services Association (a nonprofit organization), which comprise the balance sheet as of May 31, 2014, and the related statements of activities, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay-Battelle Health Services Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clay-Battelle Health Services Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain other matters that we reported to Management of Clay-Battelle Health Services Association in a separate letter dated October 10, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

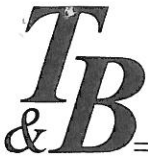


October 10, 2014

DHHR - Finance

OCT 27 2014

Date Received



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
Clay-Battelle Health Services Association
Blacksville, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Clay-Battelle Health Services Association'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 Clay-Battelle Health Services Association's major federal programs for the year ended May 31, 2014. Clay-Battelle Health Services Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Clay-Battelle Health Services Association's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Clay-Battelle Health Services Association'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Clay-Battelle Health Services Association's compliance.

Basis for Qualified Opinion on ACA Grants for New and Expanded and Consolidated Health Centers

As described in the accompanying schedule of findings and questioned costs, Clay-Battelle Health Services Association did not comply with requirements regarding CFDA 93.527 ACA Grants for New and Expanded and CFDA 93.224 Consolidated Health Centers as described in finding #2014-01 for Allowed Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for Clay-Battelle Health Services Association to comply with the requirements applicable to that program.

Qualified Opinion on ACA Grants for New and Expanded and Consolidated Health Centers

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, Clay-Battelle Health Services Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ACA Grants for New and Expanded and Consolidated Health Centers for the year ended May 31, 2014.

Other Matters

Clay-Battelle Health Services Association's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Clay-Battelle Health Services Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Clay-Battelle Health Services Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clay-Battelle Health Services Association's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Clay-Battelle Health Services Association's internal control over compliance.

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. *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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tetuck & Battist, PLLC

October 10, 2014

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OCT 27 2014

Date Received

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2014**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified Opinion

Internal control over financial reporting:

Material weakness identified?

_____ yes X no

Significant deficiency identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified?

_____ yes X no

Significant deficiency identified?

_____ yes X none reported

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

Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 X yes _____ no

Identification of major programs:

CFDA Number

93.527

93.224

Name of Federal Program or Cluster

ACA Grants for New and Expanded

Consolidated Health Centers

Dollar threshold used to distinguish between type A and type B programs:

 \$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

**CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2014 (CONT'D)**

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audited

	<u>Questioned Costs</u>
#2014-01 Allowable Costs/Cost Principles	
U.S. Department of Health and Human Services	
<i>Health Center Cluster</i>	
Consolidated Health Centers (Community Health Centers)	\$5,279
ACA Grants for New and Expanded – CFDA #93.527	
Consolidated Health Centers – CFDA #93.224	

Criteria: Federally Qualified Health Centers awarded funds designated for outreach and enrollment are required to use those funds to increase their current outreach and enrollment assistance capacity.

Condition: We noted during our audit \$5,279 of grant funds were drawn down for which the funds were not used to increase the Association's outreach and enrollment assistance capacity.

Cause: Association personnel inadvertently overdrew the Section 330 grant funds and did not timely identify one outreach and enrollment drawdown was funded twice.

Effect: Because there was no system in place to verify grant funds were not overdrawn, \$5,279 in excess of allowed costs were drawn down.

Recommendation: We recommend that Association personnel implement controls to verify that grant funds are only drawn down for allowed costs.

Entity's Response: Management agrees with this recommendation and will implement controls to verify that grant funds are only drawn down for allowed costs. Management has also contacted the grants management specialist and obtained approval to reduce subsequent drawdowns for the questioned costs.



P.O. Box 72, Blacksville, WV 26521 ■ 5861 Mason Dixon Highway ■ 304.432.8211 ■ Fax 304.432.8213

October 10, 2014

CORRECTIVE ACTION PLAN

U.S. Department of Health and Human Services

Clay-Battelle Health Services Association respectfully submits the following correction action plan for the year ended May 31, 2014. Name and address of independent public accounting firm: Tetrick & Bartlett, PLLC, P.O. Box 1916, Clarksburg, WV 26302-1916. Audit period: June 1, 2013 through May 31, 2014.

The findings from the May 31, 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

Questioned
Costs

B. Findings – Financial Statement Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audited

#2014-01 Allowable Costs/Cost Principles

U.S. Department of Health and Human Services

Health Center Cluster

Consolidated Health Centers (Community Health Centers)	\$5,279
ACA Grants for New and Expanded – CFDA #93.527	
Consolidated Health Centers – CFDA #93.224	

Recommendation: We recommend that Association implement controls to verify that grant funds are only drawn down for allowed costs.

Entity's Response: Management agrees with this recommendation and will implement controls to verify that grant funds are only drawn down for allowed costs. Management has also contacted the grants management specialist and obtained approval to reduce subsequent drawdowns for the questioned costs.

If the U.S. Department of Health and Human Services has questions regarding this plan, please contact Janice Morris, Chief Executive Officer at (304) 432-8211.

Sincerely yours,

Janice Morris
Chief Executive Officer
Clay-Battelle Health Services Association

DHHR - Finance

OCT 27 2014

Date Received

CLAY-BATTELLE HEALTH SERVICES ASSOCIATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED MAY 31, 2014

Summary Schedule of Prior Audit Findings

Reference Number

There were no Findings and Questioned Costs relative to federal awards for the prior audit period of June 1, 2012 to May 31, 2013.