

FMRS HEALTH SYSTEMS, INC.

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2014 AND 2013

AND

INDEPENDENT AUDITOR'S REPORTS

DHHR - Finance

MAR 16 2015

Date Received

## CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8
SUPPLEMENTARY INFORMATION	
Schedule of State Grant Awards	16
Schedule of Expenditures of BHHF Federal Awards by State Account Number	17
Schedule of Expenditures of BHHF State Awards by State Account Number	18
Schedule of BHHF Funding Status for Purchase Orders #G130573, #G130574, #G140004, #G140060, #G140452, #G140742, #G140747 & #G140800	19
Cumulative Schedule of Property and Equipment Purchased With BHHF Administered Funding	20
BHHF Standardized Financial Statements - Balance Sheet for Comprehensive and MR/DD Facilities	21
BHHF Standardized Financial Statements - Income Statement for Comprehensive and MR/DD Facilities	22
Schedule of Expenditures of Federal Awards	23
Note to the Schedule of Expenditures of Federal Awards	24
REPORTS REQUIRED BY FEDERAL OR STATE REGULATION	
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 <i>Government Auditing Standards</i>	25
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By OMB Circular A-133	27
Schedule of Findings and Questioned Costs	29

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
FMRS Health Systems, Inc.  
Beckley, West Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of FMRS Health Systems, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 FMRS Health Systems, Inc. as of June 30, 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.

***Emphasis of Matter - Correction of Error***

As discussed in Note 2 to the financial statements, the 2013 financial statements were restated due to the recognition of indigent care revenue and related receivables in 2013 in excess of the amount available from the funding source. This resulted in a decrease in the change in unrestricted net assets of \$402,673 as compared to the previously issued 2013 financial statements. Our opinion is not modified with respect to this matter.

***Other Matters***

***Other Information***

Our 2014 audit was conducted for the purpose of forming an opinion on the 2014 financial statements of the FMRS Health Systems, Inc., as a whole. The accompanying supplemental information included on the Schedule of State Grant Awards, Schedule of Expenditures of BHHF Federal Awards by State Account Number, Schedule of Expenditures of BHHF State Awards by State Account Number, Schedule of BHHF Funding Status for Purchase Orders #G130573, #G130574, #G140004, #G140060, #G140452, #G140742, #G140747, & #G140800, Cumulative Schedule of Property and Equipment Purchased with BHHF Administered Funding, BHHF Standardized Financial Statements - Balance Sheet for Comprehensive and MR/DD Facilities, and BHHF Standardized Financial Statements - Income Statement for Comprehensive and MR/DD Facilities, 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 is presented for 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of FMRS Health Systems, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FMRS Health Systems, Inc.'s internal control over financial reporting and compliance.

*Stuttle & Stalaker, PLLC*

Charleston, West Virginia  
December 17, 2014

DHHR - Finance

MAR 16 2015

Date Received

FMRS HEALTH SYSTEMS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2014 AND 2013

5

	2014	2013 (Restated)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,514,512	\$ 3,606,789
Accounts receivable, less allowance for doubtful accounts of \$499,011 in 2014 and \$1,036,261 in 2013	874,805	821,870
Grants receivable	492,188	744,174
Prepaid and other assets	91,951	80,904
Total current assets	5,973,456	5,253,737
Property and equipment, less accumulated depreciation and amortization	1,385,553	1,542,212
Total assets	\$ 7,359,009	\$ 6,795,949
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 188,093	\$ 316,361
Accrued expenses	420,600	418,749
Accrued annual leave	275,179	280,340
Total current liabilities	883,872	1,015,450
Total liabilities	883,872	1,015,450
Net assets - unrestricted	6,475,137	5,780,499
Total liabilities and net assets	\$ 7,359,009	\$ 6,795,949

The Accompanying Notes Are An Integral  
 Part Of These Financial Statements

FMRS HEALTH SYSTEMS, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013 (Restated)
Revenue and support		
Net client service revenues	\$ 7,673,724	\$ 6,878,475
State and federal grant revenues	5,848,997	6,196,648
Fair value of the annual use of facilities provided by the State of West Virginia	335,556	335,556
Other	89,883	181,511
Total operating revenue and support	13,948,160	13,592,190
 Interest	887	1,490
Total revenue and support	13,949,047	13,593,680
 Expenses		
Salaries and wages	7,051,132	6,743,819
Employee benefits	1,906,244	1,915,085
Contract labor and professional fees	1,326,381	1,568,296
Repairs and maintenance	280,251	219,582
Supplies	305,240	311,042
Utilities	375,064	362,720
Staff development and travel	156,270	175,097
Insurance	246,910	230,518
Taxes	209,031	170,744
Depreciation and amortization	225,125	244,444
Provision for bad debts	363,982	580,888
Rent expense attributed to fair value of annual use of facilities provided by the State of West Virginia	335,556	335,556
Other	473,223	668,135
Total expenses	13,254,409	13,525,926
 CHANGE IN UNRESTRICTED NET ASSETS	694,638	67,754
 Net assets - unrestricted, beginning of year	5,780,499	5,712,745
 Net assets - unrestricted, end of year	\$ 6,475,137	\$ 5,780,499

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

FMRS HEALTH SYSTEMS, INC.  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
		(Restated)
Cash flows from operating activities		
Increase in net assets	\$ 694,638	\$ 67,754
Adjustments		
Depreciation and amortization	225,125	244,444
Provision for bad debts	363,982	580,888
Decrease (increase) in operating assets		
Accounts receivable	(416,917)	(615,914)
Grants receivable	251,986	411,876
Prepaid and other assets	(11,047)	30,036
Increase (decrease) in operating liabilities		
Accounts payable	(128,268)	(141,574)
Accrued expenses	1,851	24,670
Accrued annual leave	(5,161)	26,930
	976,189	629,110
Cash flows from investing activities		
Purchases of property and equipment	(68,466)	(143,788)
	(68,466)	(143,788)
Net increase (decrease) in cash and cash equivalents	907,723	485,322
Cash and cash equivalents, beginning of year	3,606,789	3,121,467
Cash and cash equivalents, end of year	\$ 4,514,512	\$ 3,606,789

The Accompanying Notes Are An Integral  
 Part Of These Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS** - FMRS Health Systems, Inc. (the Agency), is a nonprofit, nonstock corporation organized under the laws of the State of West Virginia. The primary purpose of the Agency is to develop, operate, and maintain mental health facilities and services for individuals in Fayette, Monroe, Raleigh, and Summers counties in West Virginia.

**BASIS OF ACCOUNTING** - The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. The Agency records grant monies received in advance as refundable advances and recognizes revenue as qualifying expenditures are incurred.

**UNRESTRICTED NET ASSETS** - The unrestricted category consists of net assets whose use is limited only to the extent that the Agency's bylaws limit the activities of the Agency. Contributions with donor-imposed restrictions met in the same year in which the contribution is recognized are reported as changes in unrestricted net assets.

**TEMPORARILY RESTRICTED NET ASSETS** - Temporarily restricted net assets are comprised of net assets whose use has been limited by donors to a specific time period and/or purpose. The Agency currently has no temporarily restricted net assets.

**PERMANENTLY RESTRICTED NET ASSETS** - Permanently restricted net assets are comprised of net assets whose use have been restricted by the donor and must be maintained permanently by the Agency. The Agency currently has no permanently restricted net assets.

**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 certain reported amounts and disclosures. Significant estimates include the valuation of patient accounts receivable and depreciation expense. Management's estimate of the valuation of patient accounts receivable is based upon established rates with third-party payors, net amounts of anticipated collections, and historical collection information. Management's estimate of depreciation expense is based upon the estimated useful lives of the assets ranging from three to forty years using the straight-line method. Accordingly, actual results could differ from those estimates.

**NET CLIENT SERVICE REVENUE** - Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors. 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.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**PROPERTY AND EQUIPMENT** - Property and equipment acquisitions greater than \$5,000 are capitalized and are recorded at cost. Depreciation is provided over the estimated useful lives of the assets ranging from three to forty years and is computed on the straight-line method. Expenditures for equipment costing less than \$5,000 and repairs and maintenance are charged to expense as incurred.

Contributions of land, buildings, and equipment are presented as unrestricted support 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 support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

All property and equipment is considered owned by the Agency while it is used for authorized programs. The West Virginia Department of Health and Human Resources has a reversionary interest in all furniture and equipment purchased with State funds. The disposition of such equipment and ownership of any proceeds therefore is subject to state regulations. The net book value of such assets was \$55,261 at June 30, 2014.

**INCOME TAXES** - The Agency is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Agency has been classified as an organization that is not a private foundation.

The Agency has adopted ASC Topic 740-10, Accounting for Uncertainty in Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2014, the Agency has no material uncertain tax positions to be accounted for in the financial statements under the new rules. The Agency recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. As of June 30, 2014 tax years ending on or after June 30, 2011 remain subject to examination.

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

FMRS HEALTH SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

10

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**CASH AND CASHEQUIVALENTS** - Cash and cash equivalents include cash on hand and deposits with banking institutions in checking and savings accounts and investments in highly liquid debt instruments with original maturities of three months or less.

**CLIENT ACCOUNTS RECEIVABLE** - Substantially all accounts receivable are from Medicare, Medicaid or other third-party payors. Accounts receivable are presented on the statement of financial position net of estimated allowances for uncollectible accounts, including bad debts and contractual allowances. The estimated allowance for uncollectible accounts is comprised of amounts management normally considers uncollectible based upon historical trends and an analysis of the likelihood of collectibility of individual accounts. Amounts are normally considered uncollectible if unresolved differences between the Agency and the respective payor exceed a judgmentally significant time period and all means of collection have been exhausted. The allowance for uncollectible accounts was \$499,011 and \$1,036,261 for the years ended June 30, 2014 and 2013, respectively, and has been netted against accounts receivable.

**RECLASSIFICATIONS** - Certain amounts in the 2013 financial statements have been reclassified to conform with current year presentation. Such reclassifications have no effect on net assets or the change in net assets.

**SUBSEQUENT EVENTS** - In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through December 17, 2014, the date the financial statements were issued.

NOTE 2 - CORRECTION OF ERROR

During the current year, management discovered certain errors in the amounts previously reported in the 2013 financial statements due to the recognition of indigent care revenue and related receivables in excess of the amount available from the funding source. The error occurred in conjunction with the funding source changing its method of providing such funds from a traditional grant funding to a methodology similar to fee for service funding, subject to an overall limitation on the amount of funding provided for the grant period. The 2013 financial statements have been restated as follows:

FMRS HEALTH SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 2 - CORRECTION OF ERROR (Continued)

	As previously stated	Correction	As restated
Statement of financial position			
Accounts receivable	<u>\$ 1,224,543</u>	<u>\$ (402,673)</u>	<u>\$ 821,870</u>
Net assets - unrestricted	<u>\$ 6,183,172</u>	<u>\$ (402,673)</u>	<u>\$ 5,780,499</u>
Statement of activities			
Net client service revenues	<u>\$ 7,555,032</u>	<u>\$ (676,557)</u>	<u>\$ 6,878,475</u>
Provisions for bad debts	<u>\$ 854,772</u>	<u>273,884</u>	<u>\$ 580,888</u>
Changes in unrestricted net assets	<u>\$ 470,427</u>	<u>\$ (402,673)</u>	<u>\$ 67,754</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits with banking institutions in checking and savings accounts. Bank balances are typically secured by federal deposit insurance at \$250,000 per institution. Balances in these accounts sometimes exceed the federal deposit insurance limits; however, most of the Agency's cash is deposited in BB&T, which management believes to be creditworthy. At June 30, 2014, the amount that was in excess of federal insurance was \$4,084,641.

NOTE 4 - ACCOUNTS RECEIVABLE CONCENTRATIONS OF CREDIT RISK

The Agency extends credit without collateral to its patients, most of whom qualify for Medicaid. The mix of receivables net of related allowances is as follows:

	2014	2013 (Restated)
Medicaid	73%	58%
Medicaid waiver	22%	26%
Patients	1%	2%
Other third-party payors	4%	14%
	<u>100%</u>	<u>100%</u>

FMRS HEALTH SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2014	2013
Land	\$ 119,210	\$ 119,210
Buildings and improvements	2,314,259	2,314,259
Vehicles	683,537	667,169
Leasehold improvements	638,225	630,225
Furniture and equipment	1,197,085	1,152,988
	4,952,316	4,883,851
Less accumulated depreciation and amortization	3,566,763	3,341,639
	\$ 1,385,553	\$ 1,542,212

Depreciation expense for the years ended June 30, 2014 and 2013 was \$225,125 and \$244,444, respectively.

NOTE 6 - LINE OF CREDIT

The Agency has a \$1,000,000 line of credit with BB&T bank, with interest payable at Prime Rate plus .5%, which totaled 3.75% at June 30, 2014. There was no amount outstanding under this line of credit at June 30, 2014. The line of credit is secured by accounts receivable.

NOTE 7 - LEASES

The Agency leases an office building from the State of West Virginia. The office building is leased on a year-to-year basis with annual lease payments equaling \$1. Revenue and corresponding rent expense have been recognized for the annual fair rental value of the leased facility in the amount of \$335,556 and \$335,556 for the years ending June 30, 2014 and 2013, respectively.

The Agency leases certain office space under an operating lease agreement that expires in 2015. Minimum annual rental commitments under operating leases are as follows:

For the year ending June 30:

2015	\$ <u>41,800</u>
Total minimum rental commitments	\$ <u>41,800</u>

FMRS HEALTH SYSTEMS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 7 - LEASES (Continued)

Rent expense on all operating leases was \$36,794 and \$59,357 for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 - REVENUE AND SUPPORT

As described in Note 1, the Agency receives revenue from a variety of sources. The Agency's programs are dependent upon its respective Federal and State sponsoring agencies obtaining adequate appropriation and the existence of sufficient tax revenues to fund such appropriations. Following is a summary of the major funding sources for the years ended June 30:

	2014	2013 (restated)
West Virginia Department of Health and Human Resources		
Bureau for Behavioral Health and Health Facilities	\$ 5,051,871	\$ 5,408,908
Medicaid	3,096,397	2,414,332
Medicaid Waiver	2,518,842	2,539,775
Other	3,281,050	3,229,175
	\$ 13,948,160	\$ 13,592,190

A significant reduction in the level of this support, if this were to occur, may have a significant impact on the Agency's programs and activities.

NOTE 9 - RETIREMENT PLAN

The Agency has a defined contribution profit sharing plan covering substantially all full-time employees. Employer contributions are 4% of each participant's compensation for the profit sharing contribution. The Agency also makes a matching contribution of 100% of the first 3% of base compensation that a participant contributes to the plan.

Employer contributions for the years ended June 30, 2014 and 2013 amounted to \$316,351 and \$343,213, respectively.

FMRS HEALTH SYSTEMS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 10 - FUNCTIONAL EXPENSES

The Agency provides mental health services to residents within Fayette, Monroe, Raleigh, and Summers counties in West Virginia. Expenses related to providing these services for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Substance Abuse - Federally funded program offering a comprehensive array of substance abuse assessment and treatment services to meet the varying needs of those who are abusing or addicted to alcohol or other drugs of abuse	\$ 2,013,826	\$ 2,065,269
Outpatient - program focusing on the diagnosis and treatment of emotional and behavioral health problems on an outpatient status	592,344	596,723
Day Treatment - program focusing on the diagnosis and treatment of emotional and behavioral health problems in a day time treatment	1,311,703	1,242,727
Care Coordinator - program to develop a community support system for adults with serious mental illness and co-occurring mental illness and/or substance abuse and/or developmental disabilities who are at risk of hospitalization	412,680	460,718
Waiver Services - State funded Medicaid program designed to deliver services to individuals in their home and community as an alternative to receiving services in an Intermediate Care Facility	884,848	821,175
Physicians - program dedicated to enhancing the emotional and behavioral health through advocacy, community involvement and provision of the highest quality diagnostic and professional treatment services	999,201	1,038,643
Service Coordination - case management program designed to provide a single point of contact to ensure patients needs are met	245,249	243,253

FMRS HEALTH SYSTEMS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 10 - FUNCTIONAL EXPENSES (Continued)

SBIRT - Federally funded program designed to provide evidence-based screening, brief intervention, brief treatment and referral to specialty treatment for patients who have, or are at high risk for, a substance abuse disorder	134,392	269,216
Crisis - comprehensive array of programs designed to stabilize the conditions of acute or severe psychiatric symptoms	1,504,627	1,495,187
Other programs	<u>1,921,838</u>	<u>1,410,930</u>
Total program expenses	<u>10,020,708</u>	<u>9,643,841</u>
General and administrative expenses	<u>3,233,701</u>	<u>3,882,085</u>
Total	<u>\$ 13,254,409</u>	<u>\$ 13,525,926</u>

NOTE 11 - CONTINGENCIES

Under the terms of certain grant programs, periodic audits may be made, and certain costs may be questioned as not being appropriate expenses. Laws and regulations governing the grant programs and allowability of program costs are complex and subject to interpretation. Accordingly, such audits could lead to disallowances requiring reimbursements to the grantor agencies, which could be material to the Agency's financial statements. Management of the Agency believes that the Agency is in compliance with applicable laws and regulations in all material respects.

Also, the Agency is involved in various legal actions from time to time in the ordinary course of business. Management is not currently aware of any matters that will have a significant adverse effect on the accompanying financial statements.

FMRS HEALTH SYSTEMS, INC.  
 SCHEDULE OF STATE GRANT AWARDS  
 YEAR ENDED JUNE 30, 2014

AWARDING AGENCY	GRANT NAME	GRANT IDENTIFICATION	PERIOD OF AWARD	TOTAL AWARD	FUNDS RECEIVED	FUNDS EXPENDED	UNEXPENDED BALANCE	AMOUNT RECEIVABLE
WVDHHR - BHHF	SA Women	0525-2010-2890-219-252	09/30/2012 - 09/30/2013	\$ 20,550	\$ 6,850	\$ 6,850	\$ -	\$ -
WVDHHR - BHHF	SA Women	0525-2014-2890-219-258	09/30/2013 - 09/30/2014	20,550	11,988	15,413	5,137	3,425
WVDHHR - BHHF	Indigent Care	0525-2010-3065-219-258	07/01/2013 - 06/30/2014	308,993	308,993	308,993	-	-
WVDHHR - BHHF	Client Core Services	0525-2014-2851-219-258	07/01/2013 - 06/30/2014	853,640	853,640	853,640	-	-
WVDHHR - BHHF	Regional Family Support	0525-2014-2867-221-258	07/01/2013 - 06/30/2014	73,371	63,847	73,371	-	9,524
WVDHHR - BHHF	Turning Pointe	0525-2013-2890-219-258	09/30/2012 - 09/30/2013	806,950	200,218	200,218	606,732	-
WVDHHR - BHHF	Turning Pointe	0525-2014-2890-219-258	09/30/2013 - 09/30/2014	806,960	321,714	414,819	392,141	93,105
WVDHHR - BHHF	SA Adult Res. Treatment	0525-2013-2891-219-258	07/01/2013 - 06/30/2014	223,683	146,336	157,626	66,057	11,290
WVDHHR - BHHF	Children's Clinical Outreach Service	0525-2014-2919-219-258	07/01/2013 - 06/30/2014	60,000	60,000	60,000	-	-
WVDHHR - BHHF	Indigent Care	0525-2014-3065-219-258	07/01/2013 - 06/30/2014	308,993	308,993	308,993	-	-
WVDHHR - BHHF	Care Coordinators Improvement	0525-2014-3701-219-258	07/01/2013 - 06/30/2014	463,296	414,078	463,296	-	49,218
WVDHHR - BHHF	Community Supports Improvement	0525-2014-3702-219-258	07/01/2013 - 06/30/2014	45,152	33,573	45,152	-	11,579
WVDHHR - BHHF	Res. Support Housing	0525-2014-3743-219-258	07/01/2013 - 06/30/2014	1,067,982	923,438	1,067,982	-	144,544
WVDHHR - BHHF	Day Programs	0525-2014-3744-219-258	07/01/2013 - 06/30/2014	349,224	317,374	349,224	-	31,850
TOTAL				\$ 5,409,344	\$ 3,971,042	\$ 4,325,577	\$ 1,070,067	\$ 354,535



FMRS HEALTH SYSTEMS, INC.  
 SCHEDULE OF EXPENDITURES OF BHHF FEDERAL AWARDS  
 BY STATE ACCOUNT NUMBER  
 YEAR ENDED JUNE 30, 2014

FEDERAL PROGRAM TITLE	STATE ACCOUNT NUMBER	EXPENDITURES
Block Grants for Prevention and Treatment of Substance Abuse	8793-2014-2884-130-128	\$ 101,840
	8793-2014-2890-130-128	363,858
	8793-2014-2892-130-128	95,188
		<u>560,886</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	8723-2013-2886-130-128	94,306
	8723-2014-2886-130-128	67,129
		<u>161,435</u>
National Bioterrorism Hospital Preparedness Program	8802-2014-0506-130-128	3,973
		<u>\$ 726,294</u>

FMRS HEALTH SYSTEMS, INC.  
SCHEDULE OF EXPENDITURES OF BHHF STATE AWARDS  
BY STATE ACCOUNT NUMBER  
YEAR ENDED JUNE 30, 2014

18

<u>STATE ACCOUNT NUMBER</u>	<u>EXPENDITURES</u>
0525-2010-2890-219-252	\$ 6,850
0525-2014-2890-219-258	15,413
0525-2010-3065-219-258	308,993
0525-2014-2851-219-258	853,640
0525-2014-2867-221-258	73,371
0525-2013-2890-219-258	200,218
0525-2014-2890-219-258	414,819
0525-2013-2891-219-258	157,626
0525-2014-2919-219-258	60,000
0525-2014-3065-219-258	308,993
0525-2014-3701-219-258	463,296
0525-2014-3702-219-258	45,152
0525-2014-3743-219-258	1,067,982
0525-2014-3744-219-258	349,224
	<hr/>
	\$ 4,325,577
	<hr/> <hr/>

FMRS HEALTH SYSTEMS, INC.  
 SCHEDULE OF BHHF FUNDING STATUS FOR PURCHASE  
 ORDERS #G130573, #G130574, #G140004, #G140060, #G140452, #G140742, #G140747, AND #G140800  
 YEAR ENDED JUNE 30, 2014

BHHF ACCOUNT NUMBER	FINAL BHHF AWARD	AMOUNT EARNED AND BILLED	AMOUNT NOT EARNED BUT BILLED	AMOUNT EARNED AND NOT BILLED	AMOUNT COLLECTED
0525-2010-2890-219-252	\$ 20,550	\$ 6,850	\$ -	\$ -	\$ 6,850
0525-2014-2890-219-258	20,550	15,413	-	-	11,988
0525-2010-3065-219-258	308,993	308,993	-	-	308,993
0525-2014-2851-219-258	853,640	853,640	-	-	853,640
0525-2014-2867-221-258	73,371	73,371	-	-	63,847
0525-2013-2890-219-258	806,950	200,218	-	-	200,218
0525-2014-2890-219-258	806,960	414,819	-	-	321,714
0525-2013-2891-219-258	223,683	157,626	-	-	146,336
0525-2014-2919-219-258	60,000	60,000	-	-	60,000
0525-2014-3065-219-258	308,993	308,993	-	-	308,993
0525-2014-3701-219-258	463,296	463,296	-	-	414,078
0525-2014-3702-219-258	45,152	45,152	-	-	33,573
0525-2014-3743-219-258	1,067,982	1,067,982	-	-	923,438
0525-2014-3744-219-258	349,224	349,224	-	-	317,374
8802-2014-0506-130-128	5,000	3,973	-	-	-
8723-2013-2886-130-128	363,546	94,306	-	-	94,306
8723-2014-0506-130-128	100,644	67,129	-	-	53,821
8793-2014-2884-130-128	155,035	101,840	-	-	89,422
8793-2014-2890-130-128	471,031	363,858	-	-	337,156
8793-2014-2892-130-128	233,646	95,188	-	-	73,287
	<u>\$ 6,738,246</u>	<u>\$ 5,051,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,619,034</u>

FMRS HEALTH SYSTEMS, INC.  
 CUMULATIVE SCHEDULE OF PROPERTY AND EQUIPMENT PURCHASED WITH BHHF - ADMINISTERED FUNDING  
 JUNE 30, 2014

Description of Item	Reporting Unit	Date Acquired	Serial #	Cost	State Account #	Fund Description	Location	Condition
98109 CHMC Software Upgrade 16 Users	865	07/15/98		\$ 18,550	8793-1999-2885-096-252-03087	Federal Substance Abuse	101 So. Eisenhower Dr., Beckley, WV	Good
98499 Six Burner Range with Hood	261	06/30/04		4,558	0525-2003-2870-219-252	Supportive Employment	Blue Jay Center, Beckley, WV	Good
98500 Jackson High Temp Dishwasher	261	06/30/04		3,710	0525-2003-2870-219-252	Supportive Employment	Blue Jay Center, Beckley, WV	Good
98501 Ice Machine w/ storage	261	06/30/04		1,903	0525-2003-2870-219-252	Supportive Employment	Blue Jay Center, Beckley, WV	Good
Jetbook 1034 C	285	08/03/07		1,266	0525-2008-2891-219-252	SA Adult Residential	Adapt Center, Beckley, WV	Good
98632 Dell Poweredge 1900 Server	30	12/09/08		3,068	0525-2009-2849-219-252	Electronic Medical Records	101 So. Eisenhower Dr., Beckley, WV	Good
98633 EMR Back-up Device	30	12/19/08		1,635	0525-2009-2849-219-252	Electronic Medical Records	101 So. Eisenhower Dr., Beckley, WV	Good
98634 Cisco Catalyst Port Switch	30	12/19/08		1,627	8723-2009-2849-096-128-14014	Electronic Medical Records	101 So. Eisenhower Dr., Beckley, WV	Good
98635 Cisco Catalyst Port Switch	30	12/19/08		1,627	8723-2009-2849-096-128-14014	Electronic Medical Records	101 So. Eisenhower Dr., Beckley, WV	Good
98643 Sony Vaio Laptop	293	08/01/09		2,966	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98644 Sony Vaio Laptop	293	08/01/09		2,966	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98645 Sony Vaio Laptop	293	08/01/09		2,966	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98647 Sony Vaio Laptop	293	08/01/09		2,966	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98648 Sony Vaio Laptop	293	08/01/09		2,966	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98649 Lenovo Core Laptop	293	08/01/09		2,882	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
98652 Sony Vaio Laptop	293	08/01/09		2,491	8723-2009-2886-096-128-16616	SBIRT	101 So. Eisenhower Dr., Beckley, WV	Good
V982 Chevrolet, Van 1998, white	870	06/01/98		21,818	8793-1998-2891-096-252	Residential Treatment	Adapt Center, Beckley, WV	Good
V98666 2010 Dodge Grand Caravan	263	02/25/11		22,347	0525-2011-3115-219-252	MH Day Support	101 So. Eisenhower Dr., Beckley, WV	Good
V98667 2010 Dodge Grand Caravan	263	02/25/11		22,399	0525-2011-3115-219-252	MH Day Support	101 So. Eisenhower Dr., Beckley, WV	Good
V98668 2010 Dodge Grand Caravan	263	02/25/11		22,425	0525-2011-3115-219-252	MH Day Support	101 So. Eisenhower Dr., Beckley, WV	Good
V98669 2010 Dodge Grand Caravan	263	02/25/11		22,399	0525-2011-3115-219-252	MH Day Support	101 So. Eisenhower Dr., Beckley, WV	Good
2012 Dodge Caravan	283	04/17/12		24,256	0525-2011-3115-219-252	MH Day Support	101 So. Eisenhower Dr., Beckley, WV	Good
2013 Dodge Caravan	283	09/26/12		22,487	5473-2012-0511-099-128	Turning Pointe	Turning Pointe, Withrow Loop, Beckley, WV	Good
				\$ 216,278				

FMRS HEALTH SYSTEMS, INC.  
 BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES  
 STANDARDIZED FINANCIAL STATEMENTS - BALANCE SHEET  
 FOR COMPREHENSIVE AND MR/DD FACILITIES  
 ACCRUAL BASIS

June 30, 2014

**ASSETS**

1. Cash	\$ 481,211
2. Short Term Investments	4,033,301
3. Accounts Receivable - BHHF	432,837
4. Accounts Receivable - Client	6,507
5. Accounts Receivable - Medicaid	639,916
6. Accounts Receivable - Medicaid MR/DD Waiver	195,329
7. Accounts Receivable - Other	92,404
8. Inventory	-
9. Prepaid/Other	91,951
10. <b>TOTAL CURRENT ASSETS</b> (Total of lines 1-9)	<b>5,973,456</b>

NON-CURRENT ASSETS:

FIXED ASSETS

11. Property, Land and Equipment - BHHF	216,278
12. Less Accumulated Depreciation	(161,017)
13. Property, Land and Equipment - Other	4,736,038
14. Less Accumulated Depreciation	(3,405,746)
15. <b>Total Property, Land and Equipment (NET)</b>	<b>1,385,553</b>

OTHER NON-CURRENT ASSETS

16. Long-Term Investments	-
17. Other	-
18. <b>TOTAL ASSETS</b> (Total of lines 10, 15, 16 and 17)	<b>\$ 7,359,009</b>

**LIABILITIES**

CURRENT LIABILITIES:

19. Accounts Payable	\$ 188,093
20. Taxes Payable	121,303
20a. Provider Taxes Payable	21,776
21. Line of Credit - Payable	-
22. Short-Term Notes Payable	-
23. Accrued Expenses	277,521
24. Other Current Liabilities	275,179
25. <b>TOTAL CURRENT LIABILITIES</b> (Total of lines 19 through 24)	<b>883,872</b>

LONG-TERM LIABILITIES:

26. Long-Term Notes Payable	-
27. Other Long-Term Liabilities	-
28. <b>TOTAL LIABILITIES</b> (Total of lines 25, 26 and 27)	<b>883,872</b>

**NET ASSETS**

29. Unrestricted Net Assets	6,475,137
30. Temporarily Restricted Net Assets	-
31. Permanently Restricted Net Assets	-
32. <b>TOTAL LIABILITIES AND NET ASSETS</b> (Total of lines 28 through 31)	<b>\$ 7,359,009</b>

FMRS HEALTH SYSTEMS, INC.  
 BUREAU FOR BEHAVIORAL HEALTH AND HEALTH FACILITIES  
 STANDARDIZED FINANCIAL STATEMENTS - INCOME STATEMENT  
 FOR COMPREHENSIVE AND MR/DD FACILITIES  
 ACCRUAL BASIS

June 30, 2014

**REVENUE AND SUPPORT**

1.	Charity Care	\$	-
1a.	Charity Care - Account 4311.1		-
1b.	Charity Care - Account 4311.2		-
1c.	Charity Care - Account 4312.1		-
1d.	Charity Care - Account 4312.2		-
1e.	Charity Care - Account 4314.1		-
1f.	Charity Care - Account 4314.2		-
1g.	Charity Care - Account 4315.1		-
1h.	Contractual Write-Off Charity - Account 4337.1		-
1i.	Charity Care - Account 4329		-
1j.	Charity Care - Account 4358		-
	Total (should equal zero)		-
2.	Gross Client Service Revenue		8,861,184
3.	Contractual Adjustments (Target Funds)		-
3a.	Contractual Adjustments (Non-Target Funds)		(1,187,460)
4.	Bad Debt		-
4a.	Bad Debt (BHFF Target Funds)		-
4b.	Bad Debt (BHFF Non-Target Funds)		-
5.	Net Client Service Revenue		7,673,724
	Net Client Service Revenue		
6.	Medicaid (Target Funds)		-
6a.	Medicaid (Non-Target Funds)		3,096,397
7.	Medicaid MR/DD Waiver (Non-Target Funds)		2,518,842
8.	ICF/MR (Non-Target Funds)		-
9.	Private Pay (Non-Target Funds)		110,360
9a.	Private Pay (BHFF Target Funds)		-
9b.	Private Pay (BHFF Non-Target Funds)		-
10.	Other Client Service Revenue (Target Funds)		-
10a.	Other Client Service Revenue (Non-Target Funds)		1,948,125
11.	Total Net Client Service Revenue		7,673,724
	<small>(Line 11 must agree with line 5)</small>		
12.	BHFF Support		5,051,871
13.	Other/Public Support		426,395
14.	Other		797,057
15.	<b>TOTAL REVENUE AND SUPPORT</b>		<b>13,949,047</b>
	<small>(Total of line 11 through line 14)</small>		
	<b>EXPENSES</b>		
16.	Salaries		7,051,132
17.	Fringe Benefits		1,906,244
18.	Contractual Services		1,326,381
19.	Provider Tax		209,031
19a.	Bad Debts		363,982
20.	Depreciation Expense		225,125
21.	Other Expenses		2,172,514
22.	<b>TOTAL EXPENSES</b>		<b>13,254,409</b>
	<small>(Total of line 16 through line 21)</small>		
23.	<b>NET INCOME (LOSS)</b>	<b>\$</b>	<b>694,638</b>
	<small>(Line 15 minus line 22)</small>		

FMRS HEALTH SYSTEMS, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	\$ 797,057
Passed-through West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities Block Grants for Prevention and Treatment of Substance Abuse	93.959	560,886
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	161,435
National Bioterrorism Hospital Preparedness Program	93.889	3,973
Total Expenditures of Federal Awards		<u>\$ 1,523,351</u>

FMRS HEALTH SYSTEMS, INC.  
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

24

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of FMRS Health Systems, Inc., and is presented on the accrual basis. 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*.



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*

The Board of Directors  
FMRS Health Systems, Inc.  
Beckley, 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 FMRS Health Systems, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered FMRS Health Systems, Inc.'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 FMRS Health Systems, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of FMRS Health Systems, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency identified as 2014-001 in the accompanying schedule of findings and questions costs to be a material weakness.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301  
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008

Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102  
Phone (304) 485-6584 • Fax (304) 485-0971

[www.suttlecpas.com](http://www.suttlecpas.com) • E-mail: [cpa@suttlecpas.com](mailto:cpa@suttlecpas.com)  
A Professional Limited Liability Company

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether FMRS Health Systems, Inc.'s financial statements are free from 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*.

## FMRS Health Systems, Inc.'s Response to Findings

FMRS Health Systems, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. FMRS Health Systems, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## 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 FMRS Health Systems, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FMRS Health Systems, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charleston, West Virginia  
December 17, 2014

DHHR - Finance

MAR 16 2015

Date Received

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

The Board of Directors  
FMRS Health Systems, Inc.  
Beckley, West Virginia

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of FMRS Health Systems, Inc., a non-profit organization, 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 FMRS Health Systems, Inc.'s major federal programs for the year ended June 30, 2014. FMRS Health Systems, Inc.'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 FMRS Health Systems, Inc.'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 FMRS Health Systems, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of FMRS Health Systems, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, FMRS Health Systems, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of FMRS Health Systems, Inc. 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 FMRS Health Systems, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each 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 FMRS Health Systems, Inc.'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.



Charleston, West Virginia  
December 17, 2014

DHHR - Finance

MAR 16 2015

Date Received

FMRS HEALTH SYSTEMS, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

**Financial Statements**

Type of auditor's report issued: Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified that are not considered to be material weaknesses?   yes  X  none reported

Noncompliance material to financial statements noted?   yes  X  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?   yes  X  no

Significant deficiency(ies) identified that are not considered to be material weaknesses?   yes  X  none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?   yes  X  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

Auditee qualified as low-risk auditee?  X  yes   No

FMRS HEALTH SYSTEMS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

30

SECTION II

FINANCIAL STATEMENT

FINDINGS SECTION

**2014 - 001 ACCOUNTING FOR INDIGENT CARE**

**Criteria:** One of the objectives of an internal control system is to provide management with reasonable assurance that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

**Condition:** During 2014 management discovered certain errors in the amounts previously reported in the 2013 financial statements due to the recognition of indigent care revenue and related receivables in excess of the amount available from the funding source. This resulted in a restatement of the 2013 financial statements.

**Cause:** The funding source changed its method of providing such funds from a traditional grant funding to a methodology similar to fee for service funding, subject to an overall limitation on the amount of funding provided for the grant period, and management did not institute adequate procedures to limit the revenue recognized to the maximum amount allocated by the funding source.

**Effect:** Inadequate design of internal control over the review of funding agreements adversely affects management's ability to report financial data reliably in accordance with accounting principles generally accepted in the United States of America.

**Recommendation:** Management should ensure that all agreements in which certain allocations of funding awarded are properly reviewed and that revenue is not recognized above the maximum allotted amount.

**Views of Responsible Officials:** *The Agency agrees with this finding. During 2014 management became aware of the amounts that were recognized above allocated amounts from BHHF and took steps to notify Suttle & Stalnaker, the external auditors, as well as the Board of Directors. Management for 2014 has reviewed the BHHF allocation agreement and only recognized revenue within the allocated amount. Management will continue to review and properly record revenue in accordance with allocated agreements in future reporting periods.*

SECTION III

FEDERAL AWARD FINDINGS  
AND QUESTIONED COSTS SECTION

NONE