



West Virginia Hospital Association, Inc., Subsidiary and Affiliate

**Consolidated Financial Statements
and Supplementary Information**

Years Ended December 31, 2019 and 2018

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Independent Auditors' Report

Board of Trustees
West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Charleston, West Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of West Virginia Hospital Association, Inc., Subsidiary and Affiliate (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Virginia Hospital Association, Inc., Subsidiary and Affiliate as of December 31, 2019 and 2018, 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.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, in 2019, the Organization retrospectively adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition and related disclosures. Additionally, as discussed in Note 1, the Organization also retrospectively adopted ASU No. 2018-08, *Not-for-profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* in 2019. Our opinion is not modified with respect to these matters.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 September 24, 2020, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
September 24, 2020**

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Consolidated Statements of Financial Position
December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| | | (As adjusted) |
| ASSETS | | |
| Cash and cash equivalents | \$ 471,617 | \$ 502,709 |
| Grants and other receivables | 820,511 | 1,070,035 |
| Prepaid expenses | 38,070 | 49,545 |
| Investments | 10,339,581 | 9,138,006 |
| Property and equipment, net | 1,174,685 | 1,214,035 |
| Income taxes receivable | - | 36,060 |
| | <u> </u> | <u> </u> |
| Total assets | <u><u>\$ 12,844,464</u></u> | <u><u>\$ 12,010,390</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 134,398 | \$ 145,279 |
| Accrued expenses and other liabilities | 405,444 | 633,285 |
| Deferred revenue | 22,733 | 26,200 |
| Deferred compensation | 1,454,829 | 1,486,565 |
| Deferred income taxes | 210,812 | 34,501 |
| | <u> </u> | <u> </u> |
| Total liabilities | <u>2,228,216</u> | <u>2,325,830</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| Board designated | 660,516 | 660,516 |
| Undesignated | 9,797,271 | 8,865,583 |
| | <u> </u> | <u> </u> |
| Total net assets without donor restrictions | <u>10,457,787</u> | <u>9,526,099</u> |
| With donor restrictions | <u>158,461</u> | <u>158,461</u> |
| Total net assets | <u>10,616,248</u> | <u>9,684,560</u> |
| Total liabilities and net assets | <u><u>\$ 12,844,464</u></u> | <u><u>\$ 12,010,390</u></u> |

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|---------------------|
| | | (As adjusted) |
| Revenues, gains and other support: | | |
| Membership dues | \$ 3,446,687 | \$ 3,196,713 |
| Preferred providers sponsorships and staffing services | 455,415 | 270,501 |
| Group purchasing commissions | 655,504 | 604,545 |
| Grants, subcontracts and contributions | 1,747,419 | 1,739,951 |
| Quality indicator project | 74,000 | 82,000 |
| Conferences and seminars | 219,320 | 199,323 |
| Group purchasing dues | 51,100 | 75,200 |
| Special projects | 31,734 | 33,497 |
| CareLearning | 34,456 | 33,067 |
| Investment income (loss) | 1,446,252 | (613,758) |
| Rental income | 58,500 | 58,500 |
| Miscellaneous income | 123,021 | 54,744 |
| | <u>8,343,408</u> | <u>5,734,283</u> |
| Expenses: | | |
| Salaries | 3,604,674 | 3,127,231 |
| Benefits and taxes | 1,058,448 | 986,686 |
| Occupancy | 126,131 | 137,419 |
| Conferences and seminars | 129,088 | 186,900 |
| Quality indicator project | - | 21,669 |
| Depreciation | 103,983 | 100,183 |
| Insurance | 34,174 | 34,829 |
| Equipment lease expense | 8,917 | 12,456 |
| Memberships | 6,678 | 3,974 |
| Marketing and public relations | 128,985 | 128,559 |
| Telephone | 41,530 | 43,904 |
| Office supplies | 34,779 | 113,505 |
| Equipment subgrants | 246,180 | 154,591 |
| Printing and postage | 26,683 | 9,163 |
| Legislative and lobbying | 49,025 | 57,785 |
| Meetings | 32,574 | 11,400 |
| Travel | 206,972 | 221,650 |
| Consulting | 903,412 | 844,678 |
| Audit and legal | 56,998 | 37,700 |
| Licenses and miscellaneous tax expense | 7,496 | 9,808 |
| Federal and state income taxes (benefit) expense | 191,741 | (150,669) |
| Subscriptions | 24,709 | 8,960 |
| Bad debt expense | 79,513 | - |
| Other expenses | 309,030 | 291,735 |
| | <u>7,411,720</u> | <u>6,394,116</u> |
| Increase (decrease) in net assets | 931,688 | (659,833) |
| Net assets, without donor restrictions - beginning of year | <u>9,526,099</u> | <u>10,185,932</u> |
| Net assets, without donor restrictions - end of year | <u>\$ 10,457,787</u> | <u>\$ 9,526,099</u> |

See notes to consolidated financial statements and independent auditors' report.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------------|
| | | (As adjusted) |
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 931,688 | \$ (659,833) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 103,983 | 100,183 |
| Realized and unrealized (gain) loss on investments | (1,207,245) | 862,928 |
| Loss on disposal of fixed assets | 15,815 | - |
| Decrease (increase) in grants and other receivables | 249,524 | (131,160) |
| Decrease in prepaid expenses | 11,475 | 1,074 |
| Decrease in accounts payable | (10,881) | (22,437) |
| (Decrease) increase in accrued expenses and other liabilities | (242,924) | 73,347 |
| Increase (decrease) in current and deferred income taxes | 227,454 | (157,727) |
| Decrease in deferred compensation | (31,736) | (444,964) |
| (Decrease) increase in deferred revenue | (3,467) | 30,712 |
| Net cash provided by (used in) operating activities | <u>43,686</u> | <u>(347,877)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (80,448) | (54,463) |
| Purchases of investments | (508,729) | (487,509) |
| Sales of investments | 514,399 | 1,065,347 |
| Net cash (used in) provided by investing activities | <u>(74,778)</u> | <u>523,375</u> |
| Net (decrease) increase in cash and cash equivalents | (31,092) | 175,498 |
| Cash and cash equivalents, beginning of year | <u>502,709</u> | <u>327,211</u> |
| Cash and cash equivalents, end of year | <u>\$ 471,617</u> | <u>\$ 502,709</u> |
| Supplemental disclosures of cash flow information | | |
| Cash payments for: | | |
| Income taxes | <u>\$ -</u> | <u>\$ 5,183</u> |

Notes to Consolidated Financial Statements

1. Nature Of Activities And Significant Accounting Policies

The accompanying consolidated financial statements include the West Virginia Hospital Association, Inc., its wholly owned subsidiary, West Virginia Health Services, Inc. and its affiliate, Healthcare Education Foundation of West Virginia, Inc. ("Foundation"), collectively referred to as the "Organization".

Nature of activities

West Virginia Hospital Association (the "Association") is a not-for-profit trade association for providers of hospital services organized under the laws of the State of West Virginia to promote the general welfare of its membership. This is accomplished through monitoring laws and regulations affecting its members and encouraging membership by all licensed facilities in West Virginia. Similar benefits are offered to companies that provide goods and services to these facilities through associate membership.

West Virginia Health Services, Inc. ("WVHS") is a for-profit service corporation that provides technical and administrative services to Association members and other healthcare providers. These administrative services include participating with Intalere, a group purchasing organization that negotiates volume discount contracts with its suppliers on behalf of member facilities.

Healthcare Education Foundation of West Virginia, Inc. ("HEF") is a not-for-profit corporation formed to promote and conduct charitable, scientific, literary and educational programs for the benefit of hospitals and health facilities.

Summary of significant accounting policies

Principles of consolidation: The accompanying consolidated financial statements include the accounts of West Virginia Hospital Association, Inc., its wholly-owned subsidiary, West Virginia Health Services, Inc. and its affiliated organization, Healthcare Education Foundation of West Virginia, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation

The Organization's net assets are classified as:

Without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions that are met in the same period in which they are received are accounted for in net assets without donor restrictions. Certain net assets without donor restrictions are board designated for quality initiatives.

With donor restrictions: Net assets subject to donor-imposed restrictions. Net assets with donor restrictions consist of a \$5,000 investment to be held in perpetuity, the income from which is expendable to compensate the keynote speaker at the Association's annual meeting, with the remaining balance contributed by members restricted for legislative matters including tort reform, Medicare and Medicaid matters. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate

Notes to Consolidated Financial Statements

Cash and cash equivalents

For purposes of reporting the consolidated statement of cash flows, the Organization considers all undesignated cash accounts, which are not subject to withdrawal restrictions or penalties and have original maturities of three months or less, to be cash equivalents.

Grants and other receivable

Receivables are carried at the original amounts due for grants, fees, dues and other receivables less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by date. Management reviews troubled, aged accounts to determine collection potential. Receivables are written off when deemed uncollectible. Recoveries of accounts previously written are recorded as miscellaneous income when received. Interest is not charged on receivables. Management has determined that an allowance was not necessary at December 31, 2019 or 2018.

Investments

Investments in debt and equity securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the increase in net assets unless the income or loss is restricted by donor or law. The Organization does not require collateral to secure its investments. Certain investments in healthcare related organizations are carried at cost of \$23,596 and \$23,596 at December 31, 2019 and 2018, respectively, as it is not practicable to estimate fair value for such investments and the Organization has less than 20% ownership.

Property and equipment

Property and equipment acquisitions are recorded at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the respective assets. Repair and maintenance costs are expensed as incurred. The Organization capitalizes all property and equipment with costs over \$1,000 and benefiting more than one accounting period in the period purchased.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or related groups of assets, may not be fully recoverable from estimated future cash flows. In the event of impairment, measurement of the amount of impairment may be based on appraisal, market values of similar assets or estimates of future discounted cash flows using market participant assumptions with respect to the use and ultimate disposition of the asset. Based upon management's evaluation, no impairment of long-lived assets was required during the years ended December 31, 2019 and 2018.

Revenue recognition

Funding for general operations is obtained from dues paid by the Organization's membership. Membership dues are recorded at established rates, when due, based upon a standard formula. Dues received prior to the beginning of the fiscal year are reported as deferred revenue. Dues for one health system and its member hospitals make up approximately 28% and 25% of membership dues for the years ended December 31, 2019 and 2018. Dues billed on an annual basis and are recognized ratably over time throughout the year as member services are provided and performance obligations satisfied.

The Organization's grants received are recognized as revenue in the period in which related performance obligations are met and when the related conditions and barriers, as applicable, have been met. For cost reimbursed grants the related barrier and conditional requirements are deemed met when allowable expenditures are incurred in compliance with the specific contract or grant provisions. The majority of the Organization's grants are from the U.S. Department of Health and Human Services and the West Virginia Department of Health and Human Resources. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grants and applicable federal regulations, including the expenditure of the resources for allowable purposes. Federal and state awards are subject to financial and compliance audits either under the federal Single Audit Act or by contracting agencies of the federal or state government or their designees. Laws

West Virginia Hospital Association, Inc., Subsidiary and Affiliate Notes to Consolidated Financial Statements

and regulations governing the federal and state awards are complex and subject to interpretation. As a result, the ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits, and the related impact on the consolidated financial statements, if any, cannot be estimated. The ultimate resolution of the regulatory review process could materially impact future operations or cash flows in a particular period.

HEF receives funding for general operations from conferences and seminars. Revenues are recognized at the point in time in conjunction with the completion of the conference or seminar based on the established fees and the number of individuals attending.

WVHS participates with Intalere, a group purchasing organization that negotiates volume discount contracts with its suppliers on behalf of member facilities. WVHS receives commission income from the agreement with Intalere. As of December 31, 2019 and 2018 commission income from Intalere represents approximately 65% and 77% of total commission income, respectively. The agreement is in effect through December 31, 2022. The related commission income generated is recognized at the time a purchasing transaction is completed. Income is recorded at rates negotiated with specific suppliers of services and goods. Other revenues are recognized when earned.

The Association receives an endorsement revenue share for staffing services provided to member hospitals on a quarterly basis. The variable consideration on the contract is based on a specified percentage of receipts for staffing services received by the third-party staffing service provider. Staffing service revenue is recognized over time as the performance obligation is met throughout the year.

Rental income

The Organization recognizes rental income on a monthly basis.

Concentration of credit risk

The Organization grants credit to its members on terms established for each individual member and does not require collateral to secure credits extended.

Income taxes

The Association and the Foundation, which are not considered private foundations, are recognized as exempt from federal and state income taxes under Sections 501(c)(6) and 501(c)(3), respectively, of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations. WVHS' income is subject to corporate income taxes at the applicable federal and state rates.

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities present the future tax return consequences of temporary differences, which will be either taxable or deductible when the related assets and liabilities are recovered or settled. Valuation allowances are established when deemed necessary to reduce deferred tax assets to the amount expected to be realized.

FASB Accounting Standards Codification Topic, *Accounting for Uncertainty in Income Taxes*, addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Any tax "benefits" recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There are no such tax benefits claimed for the years ended December 31, 2019 and 2018.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate Notes to Consolidated Financial Statements

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no tax audits in process. Changes in tax estimates as a result of such audits are recognized in the period they become known.

New accounting pronouncements

FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Association retrospectively adopted the guidance in ASU No. 2014-09 in 2019. A cumulative effect adjustment of \$154,244 was made to beginning net assets, without donor restrictions (board designated) as of January 1, 2018, as a result of the implementation of this standard. Consistent with practice followed by several other not-for-profit entities and hospital associations disaggregated revenue by type as required by ASC 606-1-50 is depicted on the face of the consolidated statement of activities and includes disaggregated information for significant revenue sources.

As part of the adoption of ASC 606, the Association elected certain available practical expedients under the standard. First, the Association has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration for the effects of a significant financing component due to the Association's expectation that the period between the time the services are provided and the time of payment for such services will be one year or less. Additionally, the Association has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Association otherwise would have recognized is one year or less in duration.

During 2019, the Organization retrospectively adopted ASU No. 2018-08, *Not-for-profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides implementation guidance for distinguishing whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as either a contribution under ASC 958-605 or an exchange transaction under other guidance (e.g., ASC 606: *Revenue from Contracts with Customers*). The key determination is whether each party receives and sacrifices commensurate value in an exchange transaction (i.e., whether it is reciprocal). The ASU further clarifies there is no commensurate value when the public receives the primary benefit or in the generation of positive sentiment from acting as a donor. If there is no commensurate value, the transfer of assets is considered a contribution subject to the guidance provided by ASC 958-605 rather than ASC 606. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions when conditions are met. The Organization elected the retrospective application method and has adjusted the 2018 consolidated financial statement information to conform with the amendments to ASC 958 and the impact of adoption has been reflected as a cumulative effect adjustment of \$433,856 to beginning net assets, without donor restrictions (board designated) and beginning net assets, with donor restrictions of \$153,461 as of January 1, 2018.

The following summary reflects the adjustments made to the 2018 consolidated financial statements in conjunction with the implementation of ASU's 2014-09 and 2018-08:

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

| | 2018 Previously Presented | Adjustment | 2018 (As Adjusted) |
|--|--|-------------------|-------------------------------|
| <u>Consolidated Statement of Financial Position</u> | | | |
| Deferred revenue | \$ 840,177 | \$ (813,977) | \$ 26,200 |
| Total liabilities | \$ 3,139,807 | \$ (813,977) | \$ 2,325,830 |
| Net assets without donor restrictions | \$ 8,865,583 | \$ 660,516 | \$ 9,526,099 |
| Net assets with donor restrictions | \$ 5,000 | \$ 153,461 | \$ 158,461 |
| Total net assets | \$ 8,870,583 | \$ 813,977 | \$ 9,684,560 |
| <u>Consolidated Statement of Activities</u> | | | |
| Grants, contracts and contributions | \$ 1,667,535 | \$ 72,416 | \$ 1,739,951 |
| Total revenues, gains and other support | \$ 5,661,867 | \$ 72,416 | \$ 5,734,283 |
| Increase (decrease) in net assets | \$ (732,249) | \$ 72,416 | \$ (659,833) |
| Net assets, without donor restrictions-beginning of year | \$ 9,597,832 | \$ 588,100 | \$ 10,185,932 |
| Net assets, without donor restrictions -end of year | \$ 8,865,583 | \$ 660,516 | \$ 9,526,099 |
| <u>Consolidated Statement of Cash Flows</u> | | | |
| Increase (decrease) in net assets | \$ (732,249) | \$ 72,416 | \$ (659,833) |
| (Decrease) increase in deferred revenue | \$ 103,128 | \$ (72,416) | \$ 30,712 |

FASB ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the statement of financial position. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities. ASU No. 2020-05, *Revenue from Contract with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, extended the required implementation date for the guidance in ASU No. 2016-02 for the Association to its year ending December 31, 2022; early application is permitted. The Association is currently assessing the effect that the adoption of ASU No. 2016-02 will have on its consolidated financial statements.

Subsequent events

The Organization has evaluated subsequent events through September 24, 2020, the date on which the consolidated financial statements were available to be issued.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

2. Concentration Of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash and cash equivalents. Cash is deposited with a high credit quality financial institution and at times exceeds the federal depository insurance limit of \$250,000. As of December 31, 2019 and 2018, uninsured cash balances were \$221,617 and \$252,709, respectively.

3. Investments

The composition of investments at December 31, 2019 and 2018 is set forth in the following table:

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|---------------------|
| U.S. Treasury Notes and agencies securities | \$ 1,245,609 | \$ 1,356,972 |
| Equities | 6,996,029 | 5,958,230 |
| Mutual funds | 1,454,829 | 1,486,565 |
| Other investments | 23,596 | 23,596 |
| Cash and cash equivalents | <u>619,518</u> | <u>312,643</u> |
| | <u>\$ 10,339,581</u> | <u>\$ 9,138,006</u> |

Included in investments in cash and cash equivalents at December 31, 2019 and 2018, is \$5,000, which represents a permanently restricted endowment whose annual earnings are available to provide income used to compensate the keynote speaker at the Association's annual meeting.

Mutual fund investments below relate to the Organization's deferred compensation plan, which are described in Note 6. The significant mutual fund in which the Organization invests and its related fund objectives is as follows:

| <u>Fund</u> | <u>2019</u> | <u>2018</u> | <u>Invested Primarily In</u> |
|-------------------------------|-------------|-------------|---|
| Balanced: Golden Rainbow Fund | \$ 795,232 | \$784,266 | The investment seeks to provide total return through a combination of growth and income and preservation of capital in declining markets. |

Income and gains from cash equivalents and investments are comprised of the following for the years ended December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Interest and dividend income | \$ 239,006 | \$ 249,169 |
| Realized and unrealized (losses) gains | <u>1,207,246</u> | <u>(862,927)</u> |
| | <u>\$ 1,446,252</u> | <u>\$ (613,758)</u> |

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

4. Property and Equipment

Property and equipment at December 31, 2019 and 2018, consists of the following:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 220,000 | \$ 220,000 |
| Building | 1,817,825 | 1,797,170 |
| Furniture and fixtures | 407,043 | 407,043 |
| Equipment and automobiles | <u>211,171</u> | <u>238,404</u> |
| | 2,656,039 | 2,662,617 |
| Less accumulated depreciation | <u>(1,481,354)</u> | <u>(1,448,582)</u> |
| | <u>\$ 1,174,685</u> | <u>\$ 1,214,035</u> |

5. Retirement And Deferred Compensation Plans

The Association sponsors a defined contribution 401k retirement plan that covers all employees who have been employed more than one year. Employer contributions to this plan are computed based on a percentage of each participant's compensation and are made as the contributions accrue. The total plan expense incurred and paid approximated \$505,528 and \$509,262 in 2019 and 2018, respectively.

The Association offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All amounts of compensation deferred under this plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Association (without being restricted to the provision of benefits under this plan), subject only to the claims of the Association's general creditors. Participants' rights under this plan are equal to those of general creditors of the Association in an amount equal to the fair market value of the deferred account for each participant.

At December 31, 2019 and 2018, the investments of the deferred compensation plan are reported in investments and as a deferred compensation plan liability at the estimated fair value of \$1,454,829 and \$1,486,565, respectively, in the consolidated statements of financial position.

6. National Association Affiliation and Agency Transactions

The Association is an affiliate of the American Hospital Association. The Association collects dues from its membership, which are remitted to the national organization. During the years ended December 31, 2019 and 2018, the Association remitted \$333,496 and \$383,583, respectively, to the American Hospital Association.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

7. Income Taxes

The components of applicable income tax expense (benefit) for the years ended December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------|-------------------|---------------------|
| Current: | | |
| Federal | \$ 13,050 | \$ (18,425) |
| State | <u>2,380</u> | <u>(925)</u> |
| | <u>15,430</u> | <u>(19,350)</u> |
| Deferred: | | |
| Federal | 133,147 | (99,345) |
| State | <u>43,164</u> | <u>(31,974)</u> |
| | <u>176,311</u> | <u>(131,319)</u> |
| Total | <u>\$ 191,741</u> | <u>\$ (150,669)</u> |

The Organization's effective tax rate varies from the statutory federal income tax rate due principally to the non-taxable income generated by the tax-exempt Association deduction of state income taxes and provisions to return changes for changes in prior year estimates.

Net deferred tax liability and current taxes payable (receivable) at December 31, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|--------------------|
| Deferred tax liabilities (assets): | | |
| Net unrealized gain on securities | \$ 195,101 | \$ 69,367 |
| Depreciation | 21,142 | 21,574 |
| Net operating losses | 1 | (45,179) |
| Accrued liabilities and other | <u>(5,432)</u> | <u>(12,611)</u> |
| To deferred tax liabilities | <u>\$ 210,812</u> | <u>\$ 33,151</u> |
| Current taxes receivables: | | |
| Federal tax receivable | \$ (13,050) | \$ (26,560) |
| State tax receivable | <u>(2,033)</u> | <u>(9,500)</u> |
| Total current tax payable (receivable) | <u>\$ 15,083</u> | <u>\$ (36,060)</u> |

The current tax payable at December 31, 2019 is included in accrued expenses and other liabilities in the accompanying consolidated statement of financial position.

8. Fair Value of Financial Instruments

Fair value measurements

The Fair Value Measurement and Disclosures topic of the Financial Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate Notes to Consolidated Financial Statements

This Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted market prices for identical assets or liabilities in active markets.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full-term of the assets and liabilities.
- Level 3: Significant unobservable inputs that reflect an Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments, including deferred compensation liabilities

Investment securities and deferred compensation liabilities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

Assets and liabilities measured at fair value on a recurring basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis:

| | Total at | Fair Value Measurements Using | | |
|---|----------------------|-------------------------------|------------------|-------------|
| | December 31, 2019 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | \$ 225,501 | \$ 225,501 | \$ - | \$ - |
| Fixed Income: | | | | |
| U.S. Treasury Notes and agencies securities | 1,245,609 | 1,245,609 | - | - |
| Equities: | | | | |
| Bonds | 2,303,440 | 2,303,440 | - | - |
| Consumer cyclical | 526,740 | 526,740 | - | - |
| Consumer non-cyclical | 639,335 | 639,335 | - | - |
| Energy | 173,452 | 173,452 | - | - |
| Finance | 685,058 | 685,058 | - | - |
| Industrial | 385,849 | 385,849 | - | - |
| Material | 468,783 | 468,783 | - | - |
| Technology | 834,672 | 811,076 | 23,596 | - |
| Other | 1,002,297 | 1,002,297 | - | - |
| Mutual funds: | | | | |
| Large blend | 219,026 | 219,026 | - | - |
| Medium blend | 23,369 | 23,369 | - | - |
| Medium value | 795,232 | 795,232 | - | - |
| Large growth | 68,673 | 68,673 | - | - |
| Large value | 76,042 | 76,042 | - | - |
| Small blend | 117,286 | 117,286 | - | - |
| Other | 155,200 | 155,201 | - | - |
| | <u>\$ 9,945,564</u> | <u>\$ 9,921,969</u> | <u>\$ 23,596</u> | <u>\$ -</u> |
| Liabilities: | | | | |
| Deferred Compensation plan liabilities | \$ 1,454,829 | \$ 1,454,829 | \$ - | \$ - |

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

| | Total at December 31, 2018 | Fair Value Measurements Using | | |
|---|----------------------------------|-------------------------------|------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | \$ 224,932 | \$ 224,932 | \$ - | \$ - |
| Fixed Income: | | | | |
| U.S. Treasury Notes and agencies securities | 1,356,972 | 1,356,972 | - | - |
| Equities: | | | | |
| Bonds | 2,496,772 | 2,496,772 | - | - |
| Consumer cyclical | 478,331 | 478,331 | - | - |
| Consumer non-cyclical | 365,201 | 365,201 | - | - |
| Energy | 135,172 | 135,172 | - | - |
| Finance | 409,176 | 409,176 | - | - |
| Industrial | 368,524 | 368,524 | - | - |
| Material | 350,899 | 350,899 | - | - |
| Technology | 711,770 | 711,770 | - | - |
| Other | 665,981 | 642,385 | 23,596 | - |
| Mutual funds: | | | | |
| Large blend | 241,542 | 241,542 | - | - |
| Medium blend | 16,163 | 16,163 | - | - |
| Medium value | 784,266 | 784,266 | - | - |
| Large growth | 108,536 | 108,536 | - | - |
| Large value | 100,617 | 100,617 | - | - |
| Small blend | 136,885 | 136,885 | - | - |
| Other | 98,556 | 98,556 | - | - |
| | <u>\$ 9,050,295</u> | <u>\$ 9,026,699</u> | <u>\$ 23,596</u> | <u>\$ -</u> |
| Liabilities: | | | | |
| Deferred Compensation plan liabilities | <u>\$ 1,486,565</u> | <u>\$ 1,486,565</u> | <u>\$ -</u> | <u>\$ -</u> |

The Organization had \$394,017 and \$87,711 of cash as of December 31, 2019 and 2018, respectively, which was not classified as a Level as prescribed within FASB ASC 820.

Assets or liabilities recorded at fair value on a nonrecurring basis

The Organization has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

9. Functional Expenses

The Association provides services to its member hospitals and health facilities. HEF receives grants provides program services for the benefit of hospitals and health facilities.

Expenses related to providing these services for the year ended December 31, 2019 and 2018 are as follows:

| | 2019 | | |
|----------------------------------|-----------------------------|---------------------------------------|---------------------|
| | Program Services | General and Administrative | Total |
| Salaries and wages | \$ 3,136,066 | \$ 468,608 | \$ 3,604,674 |
| Benefits and taxes | 920,850 | 137,598 | 1,058,448 |
| Consulting | 722,730 | 180,682 | 903,412 |
| Depreciation | 93,585 | 10,398 | 103,983 |
| Occupancy | 113,518 | 12,613 | 126,131 |
| Conferences and seminars | 129,088 | - | 129,088 |
| Marketing and public relations | - | 128,985 | 128,985 |
| Equipment subgrants and supplies | 246,180 | - | 246,180 |
| Legislative and lobbying | 44,123 | 4,902 | 49,025 |
| Travel | 186,275 | 20,697 | 206,972 |
| Federal and state income taxes | - | 191,741 | 191,741 |
| Other | <u>530,464</u> | <u>132,617</u> | <u>663,081</u> |
| Total | <u>\$ 6,122,879</u> | <u>\$ 1,288,841</u> | <u>\$ 7,411,720</u> |

| | 2018 | | |
|----------------------------------|-----------------------------|---------------------------------------|---------------------|
| | Program Services | General and Administrative | Total |
| Salaries and wages | \$ 2,720,691 | \$ 406,540 | \$ 3,127,231 |
| Benefits and taxes | 858,417 | 128,269 | 986,686 |
| Consulting | 675,742 | 168,936 | 844,678 |
| Depreciation | 90,165 | 10,018 | 100,183 |
| Occupancy | 123,677 | 13,742 | 137,419 |
| Conferences and seminars | 186,900 | - | 186,900 |
| Marketing and public relations | - | 128,559 | 128,559 |
| Equipment subgrants and supplies | 154,591 | - | 154,591 |
| Legislative and lobbying | 52,007 | 5,778 | 57,785 |
| Travel | 199,485 | 22,165 | 221,650 |
| Federal and state income taxes | - | (150,669) | (150,669) |
| Other | <u>452,154</u> | <u>146,949</u> | <u>469,604</u> |
| Total | <u>\$ 5,513,829</u> | <u>\$ 880,287</u> | <u>\$ 6,394,116</u> |

The consolidated financial statements report certain expense categories that are attributable to both program services and the general administrative or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest and other occupancy costs, are allocated to a function based on approximate time spent.

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Notes to Consolidated Financial Statements

10. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 471,617 | \$ 502,709 |
| Grants and other receivables | 820,511 | 1,070,035 |
| Investments | <u>619,518</u> | <u>330,000</u> |
| Total | <u>\$ 1,911,646</u> | <u>\$ 1,902,744</u> |

The Association has budgeted to spend approximately \$619,518 from investments for general expenditures within one year. Accordingly, these assets have been included in the qualitative information above as of December 31, 2019. The Association has other investments that could be made available, if necessary.

11. Commitment

In May 2017, the Board of Trustees approved a total financial commitment for the Discharge Data Project not to exceed \$1 million over a three-year period, beginning in 2018. Included are costs for staff, equipment, and technology and the commitment to the Missouri Hospital Association to purchase data analysis software for the project. The annual cost for the software ranges from \$100,000 to \$125,000. The Organization is funding this project from general reserves. As of December 31, 2019, the remaining commitment was \$448,640.

12. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the highly contagious respiratory disease named “coronavirus disease 2019” (“COVID-19”) to be a pandemic. Many state and local governments, including West Virginia, have imposed strict measures to curtail certain aspects of public life in an effort to contain COVID-19 as U.S. cases have risen sharply, and such curtailments have resulted in significant disruption of the U.S. economy and financial markets.

At this time, the State of West Virginia is opening back up and the Association’s operations are in transition. The extent of the impact of the pandemic on the Association’s operational and financial performance will depend on certain developments including the duration of the COVID-19 pandemic, the impact on member hospitals, vendors and employees, along with governmental regulatory and private sector responses. The Organization has implemented various cash management and cost savings measures to help mitigate any financial impact. Additionally, member dues are based on previous years expenses of member hospitals. With the significant decline in elective procedures as a result of the pandemic, this will result in a one-year reduction in membership dues unless a change is approved in determining member dues for that period.

The accompanying consolidated financial statements do not reflect any adjustment as a result of this subsequent increase in economic uncertainty. The Organization’s financial condition, liquidity, and results of operations could be adversely affected from the impact of COVID-19, and such impact could be material.

Supplementary Information

West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

| <u>Federal Grantor/Pass-through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity ID Number</u> | <u>Federal Expenditures</u> | <u>Pass-through to Subrecipients</u> |
|---|------------------------------------|--|---------------------------------|--|
| U.S. Department of Health and Human Services: Passed through State of West Virginia, Department of Health and Human Resources: | | | | |
| State Rural Hospital Flexibility Program | 93.241 | G200538, G190766 | \$ 394,918 | \$ - |
| Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.074 | G190319 | 543,138 | 87,761 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | G200307 | 472,628 | 88,500 |
| Small Rural Hospital Improvement Grant Program | 93.301 | G190375 | 40,680 | 40,680 |
| CAH Hyper - State Public Health Basic Improving the Health of Americans Through Prevention and Management of Diabetes and Heart Disease and Stroke | 93.426 | 6190729 | 45,030 | - |
| U.S. Department of Health and Human Services: The Centers for Medicare and Medicaid Services: Passed through Health Research & Educational Trust: | | | | |
| Hospital Improvement Innovation Networks | 93.U03 | HHSM-500-2016-00067C | <u>251,024</u> | <u>-</u> |
| Total Department of Health and Human Services | | | <u>1,747,418</u> | <u>216,941</u> |
| Total expenditures of Federal awards | | | <u>\$ 1,747,418</u> | <u>\$ 216,941</u> |

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal awards (the "Schedule") includes the federal award activity of the West Virginia Hospital Association, Inc. and affiliate, Healthcare Education Foundation of West Virginia, Inc., for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization has elected to use a rate less than the de minimis indirect cost rate of 10 percent of modified total direct costs as allowed under the Uniform Guidance for CFDA 93.074, *Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements*, federal award and certain other awards. For other awards, the Organization has elected to use the 10 percent de minimis indirect cost rate.

Independent Auditors' 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*

Board of Trustees
West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the West Virginia Hospital Association, Inc., Subsidiary and Affiliate (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 24, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 the Organization's consolidated 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*.

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.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
September 24, 2020**

Independent Auditors' Report On Compliance For Each Major Federal Program And Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Charleston, West Virginia

Report on Compliance for Each Major Federal Program

We have audited West Virginia Hospital Association, Inc., Subsidiary and Affiliate's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 the Organization'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 the major federal programs; however, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
September 24, 2020**

Schedule of Findings and Questioned Costs

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

| | |
|------------|-----------|
| <u>YES</u> | <u>NO</u> |
|------------|-----------|

Internal control over financial reporting:

Material weakness(es) identified? _____ X _____

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ X _____

Noncompliance material to financial statements noted? _____ X _____

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ X _____

Significant deficiency(ies) identified that are not considered to be material weakness(es)? X _____

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? X _____

Identification of major programs:

| CFDA/Contract Numbers | Name of Federal Program or Cluster | Amount Expended |
|--|--|-----------------|
| 93.074 | Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | \$ 543,138 |
| 93.889 | Bioterrorism Hospital Preparation | \$ 472,678 |
| Dollar threshold used to distinguish between type A and type B programs: | | \$ 750,000 |
| Auditee qualified as low-risk auditee? _____ Yes _____ <u>X</u> No | | |

**West Virginia Hospital Association, Inc., Subsidiary and Affiliate
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2019**

2. Financial Statement Findings

Reference Number: 2019-001 Contract Formalization – Prior Year Finding 2018-01

3. Federal Award Findings and Questioned Costs

Reference Number: 2019-001 Contract Formalization

2019-001 Contract Formalization

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Federal CFDA Number</u> |
|--|----------------------------|
| U.S. Department of Health and Human Services: Passed through State of West Virginia, Department of Health and Human Resources: | |
| State Rural Hospital Flexibility Program | 93.241 |
| Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.074 |
| National Bioterrorism Hospital Preparedness Program | 93.889 |
| Small Rural Hospital Improvement Grant Program | 93.301 |
| CAH Hyper -State Public Health Basic | 93.426 |
| U.S. Department of Health and Human Services: The Centers for Medicare and Medicaid Services: Passed through Health Research & Educational Trust: | |
| Hospital Improvement Innovation Networks | 93.U03 |

Criteria: 2 CFR section 200.22 defines a contract as, “a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract when the substance of the transaction meets the definition of a Federal award or subaward.” The 2 CFR section 200.23 defines a contractor as “an entity that receives a contract as defined in §200.22 Contract.” In accordance with general procurement standards at 2 CFR section 200.318, if the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a state, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent Organization, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization.

Condition: During a review by the West Virginia Department of Health & Human Resources (“WVDHHR”) monitoring and compliance division, as pass through awarding agency, it was noted that Health Education Foundation of West Virginia, Inc. (“HEF”), an affiliate of the West Virginia Hospital Association (“WVHA”), charged contractual expenses to federal grants but had only a memorandum of understanding between WVHA and HEF for WVHA employees to support the contractual expenditures. For a portion of the period under audit through October 2019, HEF had no employees making it a fiscal agent. HEF was receiving the federal funds and was utilizing WVHA employees to provide certain services such as technical support, consulting, etc. under the grant agreements. There were no formal contracts in place related to the work performed for HEF by WVHA employees until October 2019, when corrective action was taken.

Questioned Costs: None

**West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019**

Context: Contractual expenses charged to federal award programs for services provided by WVHA for the year ended December 31, 2019, were approximately \$242,000 through October 2019, when corrective action was taken.

Cause: Management indicated that it was their historical understanding that a memorandum of understanding between WVHA and HEF was sufficient to charge contractual expenses to the grants, based on previous discussions with the grantor pass through agency.

Effect: Without formal contractual arrangements in place, the contractual expenses charged to grants could be deemed unallowable.

Recommendation: In conjunction with the 2018 Single Audit, we recommended that management develop and place into effect policies, procedures and controls to ensure that formal legal contracts are in place to support contractual services charged to grants. Furthermore, we recommended that WVHA should maintain written standards of conduct covering organizational conflicts of interest. Corrective action was implemented by management in October 2019.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding. We have submitted our corrective action plan in response to the review by the WVDHHR in October 2019, which included the following.

- a) Submitted a certification letter to the WVDHHR that all grant monies were expended to achieve the goals and objectives of each grant respectively, and that the goals and objective for each grant were satisfied completely.
- b) Submitted certification letter to the WVDHHR stating that the HEF maintains and complies with current written procurement procedures entitled "Healthcare Education Foundation of West Virginia, Inc.'s Uniform Guidance Procurement Standards Compliance Policy" in accordance with the requirements of 2CFR 200.318 ("General procurement standards") through 2CFR 200.326 ("Contract provisions").
- c) Certain employees of WVHA became employees of HEF in October 2019. Thus, HEF is no longer a fiscal agent.

Additionally, HEF now maintains written standards of conduct covering organizational conflicts of interest.

We received acknowledgement from WVDHHR that our corrective action plan was accepted and that no further actions are required at this time.

**West Virginia Hospital Association, Inc., Subsidiary and Affiliate
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019**

Summary Schedule of Prior Audit Findings and Corrective Action Plan

Finding: 2018-001, Contract Formalization

Condition: During a review by the West Virginia Department of Health & Human Resources (“WVDHHR”) monitoring and compliance division, as pass through awarding agency, it was noted that Health Education Foundation of West Virginia, Inc. (“HEF”), an affiliate of the West Virginia Hospital Association (“WVHA”), charged contractual expenses to federal grants but had only a memorandum of understanding between WVHA and HEF for WVHA employees to support the contractual expenditures. During the period under audit, HEF had no employees making it a fiscal agent. HEF was receiving the federal funds and was utilizing WVHA employees to provide certain services such as technical support, consulting, etc. under the grant agreements. There were no formal contracts in place related to the work performed for HEF by WVHA employees.

Status: The Organization has a similar finding for the year ending 2019 (see finding 2019-001) since corrective action was not taken until October 2019. In addition, we have received confirmation from WVDHHR that they have accepted our corrective action taken in response to prior year finding 2018-01. As such, this finding was resolved by December 31, 2019.

Finding: 2018-002, Untimely Data Collection Form and Single Audit Reporting Submission

Status: The Organization had no similar finding for the year ending December 31, 2019 as the 2019 Single Audit report package will be filed by the required filing deadline. Accordingly, this finding is considered resolved.

DHG