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STATE OF WEST VIRGINIA

REVIEW OF
FAMILY CARE OUTPATIENT CENTER, INC.
FOR THE YEAR ENDED JUNE 30, 1982



OFFICE OF LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305

REVIEW OF
FAMILY CARE OUTPATIENT CENTER, INC.
FOR THE YEAR ENDED JUNE 30, 1982



LEGISLATIVE AUDITOR

CHARLESTON

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

In compliance with your instructions, we have reviewed the records of the Family Care Outpatient Center, Inc. Our review covered the fiscal year ended June 30, 1982. The results of the review are set forth on the following pages of this report.

Respectfully submitted,

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

TLS:nkk

Auditors: Delbert Pullen, Supervisor
Charles Carpenter, Auditor-in-Charge
Mark Welch

FAMILY CARE OUTPATIENT CENTER, INC.

TABLE OF CONTENTS

Exit Conference	1
Introduction	2
General Remarks	6
Audited Financial Statements	11
Certificate of Legislative Auditor	20

FAMILY CARE OUTPATIENT CENTER, INC.

EXIT CONFERENCE

We held an exit conference on January 3, 1983 with the Dean of School of Medicine, the President of Board of Directors and the Executive Director. The report was reviewed and discussed and all concurred with the information included in this report.

FAMILY CARE OUTPATIENT CENTER, INC.

INTRODUCTION

The Family Care Outpatient Center Corporation was formed May 13, 1976 under the provisions of Chapter 31, Article 1, Section 27 of the West Virginia Code. The following individuals were the incorporators:

Olen E. Jones, Jr.

Joseph C. Peters

Paul H. Collins

George J. Hill, M.D.

The principal office of the corporation is located at 1801 Sixth Avenue, Huntington, West Virginia.

The corporation is organized as a nonprofit organization that is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. During the fiscal year 1982, there were 43 physicians in the corporation.

The corporation's officials for the year ended June 30, 1982 were as follows:

BOARD OF DIRECTORS

Ernest F. Leaberry	President
Dorothy Mayne	Vice President
Charlene Sizemore	Secretary/Treasurer
A. W. Clark	Director
Paul Collins	Director
Gary Dodd	Director
Ronald G. Midkiff	Director
Jody Smirl	Director
Donald C. Tarter	Director

EX-OFFICIO MEMBERS OF THE BOARD OF DIRECTORS

Dr. Robert Hayes	President, Marshall University
Dr. Robert Coon	Dean of School of Medicine

EXECUTIVE OFFICERS

John M. Zink Executive Director
Donald Melnick, M.D. Medical Director

The purposes for which the corporation was formed are as follows:

1. To establish, maintain, operate and manage a public nonprofit family care clinic for the reception and treatment of ambulatory outpatients residing in southern West Virginia and the surrounding areas.
2. To establish, cooperate and participate with any public institution of higher learning, any public educational institution or association, or any branch, agency, adjunct or affiliate thereof, in any plan or program concerning any matter pertaining to public or community health.
3. To develop, promote, encourage and support any group, organization, agency, association or cooperative existing exclusively for nonprofit charitable and/or public purposes in the furtherance of a coordinated and planned health system serving the residents of southern West Virginia and residents of the surrounding areas.
4. The corporation shall have the power, either directly or indirectly, either alone or in conjunction or in cooperation with others, to do all other lawful acts and things and to engage in all lawful activities which may be necessary, useful, suitable, desirable or proper for the furtherance and attainment of any or all of the purposes for which the corporation is organized.

On December 16, 1981, the above stated purposes were supplemented as follows:

1. To provide diagnostic and treatment care to ambulatory patients in the form of primary and consultative practice, clinical and anatomic pathology, diagnostic radiography, epidemiology and community health and other services needed in the Huntington, West Virginia area, not requiring overnight or emergency trauma care coverage at the family care outpatient center;

2. To insure that all patients treated in the center receive optimal care, and to assure quality assessment and program evaluation;

3. To provide a means whereby problems of medical administrative nature may be discussed by the medical staff with the governing body and the administration;

4. To formulate principles of practice, which specifically outline standards governing services rendered at Family Care Outpatient Center, Inc., including but not confined to, patient rights and responsibilities, collection of explicitly defined data base, adoption of standardized medical records, mechanisms for patient education, provision of provider of continuing education via audit and other means, provision of coverage for patient care, and mechanisms for establishing fees; and,

5. To engage in cooperative efforts with Marshall University in programs of teaching and research.

The provisions for the regulation of the internal affairs of the corporation are as follows:

1. The affairs of the corporation shall be managed and controlled by the Board of Directors composed of not less than three nor more than nine members elected as provided by the by-laws of the corporation.

2. No part of the income of the corporation shall inure to the benefit of any director or officer of the corporation or any private individual (except that reasonable compensation may be paid for services rendered to or for the corporation affecting one or more of its purposes), and no director or officer of the corporation or any private individual shall be entitled to share in the distribution of any corporate assets on dissolution of the corporation.

3. In the event of the liquidation or dissolution of the corporation, whether voluntary or involuntary, all of the remaining property of the corporation shall be paid and distributed to "A." Such organization or organizations formed for the

same purposes and then qualified as a tax exempt organization under the provisions of Section 501 (c) (3) of the Internal Revenue Code of 1954 and the regulations promulgated thereunder as the same now exist or as they shall be hereafter amended from time to time, or "B." To a federal, state or local government, for a public purpose, all as the Board of Directors of the corporation shall determine.

FAMILY CARE OUTPATIENT CENTER, INC.

GENERAL REMARKS

Scope

We have completed our review of the Family Care Outpatient Center, Inc. (FCOC) for the year ended June 30, 1982. The purpose of this review was to obtain information for the Joint Committee on Government and Finance in order for the Committee to become more knowledgeable of the corporation's operations.

Also, included in this report is the audit report on the FCOC's financial statements for the year ended June 30, 1982 that was prepared by a local independent certified public accountant.

Revenues

The corporation's revenues are generated from fees charged patients at the Family Care Outpatient Center for professional medical services. The corporation's fee schedule is reviewed periodically. Also, revenues are generated from the investment of funds not needed for immediate operations.

The corporation's revenues for the 1982 fiscal year were as follows:

Patient Services	\$2,449,433
Interest	104,780
Miscellaneous Income	<u>48,410</u>
	<u>\$2,602,623</u>

Physicians' Salaries

At the beginning of every fiscal year, each physician signs a contract with Marshall University stating what their compensation will be from the various sources; which are, stipends from the state, veterans' administration assistance grant funds, and patient care activities. The patient care activities portion is from either services performed at the Family Care Outpatient Center or the Veterans' Administration Medical Center. The total allowable salary for each faculty member is set each year by the Dean of the School of Medicine

and approved by the President. All salaries are set according to guidelines established by Marshall University and the Board of Regents. The physicians' salaries are not determined by the amount of money generated by the physicians through patient care activities, but on the basis of total contribution to the School of Medicine. The salaries were as follows during the 1982 fiscal year:

Marshall University Salaries	\$1,278,334.18
Medical Corporation Salaries	<u>656,773.00</u>
Total Physicians' Salaries	<u>\$1,935,107.18</u>

Physicians' Fringe Benefits

All permanent full-time and permanent part-time employees of the Family Care Outpatient Center, Inc. participate in the Teachers' Insurance Annuity Association (TIAA) College Retirement Equities Fund (CREF). Contributions are made on a monthly basis during the years of participation in accordance with the following schedule:

PLAN CONTRIBUTIONS AS A PERCENT OF SALARY

<u>Participant</u>	<u>FCOC</u>	<u>Total</u>
6%	6%	12%

In the event a participant in the plan terminates employment for reasons other than retirement or disability and requests that TIAA/CREF repurchase his or her annuity, the corporation will approve such repurchase provided the participant is not employed by or moving to another institution having a TIAA/CREF retirement plan for which he or she will be eligible, and provided the repurchase meets the other conditions under which TIAA/CREF will repurchase annuities.

The physicians are also covered by a \$10,000 insurance policy that is purchased by Marshall University with an option to purchase an additional \$20,000.

Individual and institutional dues and membership fees are paid as a corporate expense. Included are state and local medical society memberships that were a requirement for obtaining medical malpractice liability insurance under Aetna insurance.

The physicians also were covered by personal liability insurance. This was another requirement for obtaining medical malpractice insurance by Aetna Insurance Company. This was an umbrella liability policy that was purchased on each physician. It should be noted in this regard and in the membership item above that Aetna was the only carrier writing medical malpractice insurance for the State of West Virginia.

Employees' Salaries and Fringe Benefits

During the fiscal year 1982, the Family Care Outpatient Center employed 67 people. The employees' salaries are paid by the Family Care Outpatient Center along with fringe benefits. The employees are not State employees and consequently the corporation pays 100% of the salaries and the fringe benefits. The total employees' compensation for the 1982 fiscal year was \$653,169.

The employees are also covered by a life insurance policy with the medical group insurance systems. The coverage is equal to the employees' salary with a minimum coverage of \$10,000 and a maximum of \$50,000. In addition, the employees are covered by the TIAA disability insurance plan. These premiums are paid by the corporation.

Purchasing

Purchases are segregated into two categories, those to purchase the routine operating necessities of the practice corporation and those to support the academic departments' research and education activities. Purchasing is performed via a petty cash fund or via advance purchase order. The Dean of

the School of Medicine has allowed each department to establish a petty cash fund of up to \$100. This allows for minor purchases for immediate office supply needs or other purchases that are urgent in nature. These purchases are approved by the department chairmen. The petty cash fund is replenished weekly, bi-monthly or monthly requisitions which must be accompanied by all of the supporting documents for previous usage of the petty cash fund.

All other purchasing requires advance purchase orders. Items exceeding \$100 in unit price and having life expectancy of more than one year are classified as equipment. Other purchases of items or services are categorized as current expense or repairs and alterations. Those purchase orders from the academic departments using funds set aside for academic research and educational support activities require prior approval of the Dean of the School of Medicine and the department chairpersons. Purchase orders for practice activities are through corporate operating funds budgeted annually by the corporate administrative officers and approved by the Board of Directors. Those purchase orders require approval of the FCOC administration. Then the purchases are sent to FCOC Purchasing Department, which is operated jointly with the Marshall University School of Medicine Receiving Department. While purchases that are urgent may not have to go through the entire bidding process, routine purchases go through a formal bidding process to determine the lowest bidder and capture whatever saving possible.

Travel Reimbursement

Family Care Outpatient Center employees use the same travel guidelines that are used by the State of West Virginia. However, in addition to the mandatory travel requisition, a statement of justification for the trip is included at the end of the description and itemization of expenses.

All travel requisition purchase orders are submitted in advance of the trip if possible. The requisition lists the place of the meeting and an itemization of expenses. However, before payment is made on all faculty expenses, approval from the Dean of the School of Medicine is required in addition to all of the appropriate documentation supporting the expenditures. In instances where expenses are greater than the advance that was received, the difference is reimbursed to the individual by FCOC provided there is proper documentation and the expenditures appear reasonable in nature.

Family Care Outpatient Center, Inc.

AUDIT REPORT

June 30, 1982





KEN SMART & ASSOCIATES AC
Certified Public Accountants

Board of Directors
Family Care Outpatient Center, Inc.
1801 Sixth Avenue
Huntington, WV 25701

Gentlemen:

We have examined the balance sheet of Family Care Outpatient Center, Inc. as of June 30, 1982, and the related statements of income and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Family Care Outpatient Center, Inc. at June 30, 1982, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ken Smart & Associates

August 25, 1982

Family Care Outpatient Center, Inc.
 STATEMENT OF FINANCIAL POSITION
 June 30, 1982

ASSETS

CURRENT ASSETS

Cash - Family Care Outpatient Center, Inc.	\$ 30,624	
University Physicians	64,958	
Accounts Receivable - Net (Note 1)	868,007	
Inventory (Note 1)	71,058	
Prepaid Expenses	17,233	
Investments in Securities - FCOC	132,217	
Investments in Securities - U. P.	<u>491,368</u>	
Total Current Assets		\$1,675,465

FIXED ASSETS

Furniture, Fixtures & Equipment	\$417,094	
Less: Accumulated Depreciation (Note 1)	<u>(28,105)</u>	
Total Fixed Assets		388,989

OTHER ASSETS

Deposits		<u>641</u>
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TOTAL ASSETS

\$2,065,095

Family Care Outpatient Center, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 1982

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

Taxes Payable	\$22,751	
Accrued Expenses	<u>55,811</u>	
Total Current Liabilities		\$ 78,562

NON-CURRENT LIABILITIES

Lease Commitment (Note 2)		18,450
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FUND BALANCE

1,968,083

TOTAL LIABILITIES AND FUND BALANCE

\$2,065,095

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

Family Care Outpatient Center, Inc.
STATEMENT OF INCOME
For the Year Ended June 30, 1982

	<u>TOTAL</u>	<u>FCOC</u>	<u>UNIVERSITY PHYSICIANS</u>
<u>REVENUE</u>			
Gross Charges - Fees for Service	\$3,277,737	\$1,175,733	\$2,102,004
Other Professional Income	191,971	-0-	191,971
Less: Contractual Adjustments	(763,975)	(174,399)	(589,576)
Bad Debt Allowance	(256,300)	(64,132)	(192,168)
Net Revenue	<u>\$2,449,433</u>	<u>\$ 937,202</u>	<u>\$1,512,231</u>
 <u>OPERATING EXPENSES</u>			
Human Resources:			
Physicians	\$ 656,773	\$ 8,887	\$ 647,886
Salaries and Wages	653,169	506,398	146,771
Total Human Resources	<u>\$1,309,942</u>	<u>\$ 515,285</u>	<u>\$ 794,657</u>
 Purchased Services	 \$ 286,739	 \$ 139,528	 \$ 147,211
 Physical Resources:			
Supplies	\$ 226,901	\$ 222,332	\$ 4,569
Occupancy and Use	25,297	15,513	9,784
Depreciation	25,078	5,599	19,479
Maintenance and Repairs	16,280	15,875	405
Total Physical Resources	<u>\$ 293,556</u>	<u>\$ 259,319</u>	<u>\$ 34,237</u>
 General and Administrative:			
Payroll Taxes	\$ 136,183	\$ 76,402	\$ 59,781
Insurance	91,265	43,581	47,684
Amortization	27,585	27,585	-0-
Legal and Accounting	12,474	8,424	4,050
Other General and Administrative	271,708	75,882	195,826
Total General and Administrative	<u>\$ 539,215</u>	<u>\$ 231,874</u>	<u>\$ 307,341</u>
 Reimbursed Overhead	 \$ -0-	 \$ (300,843)	 \$ 300,843
Total Operating Expenses	<u>\$2,429,452</u>	<u>\$ 845,163</u>	<u>\$1,584,289</u>
 <u>NET INCOME (LOSS) FROM OPERATIONS</u>	 \$ 19,981	 \$ 92,039	 \$ (72,058)
 <u>OTHER INCOME</u>			
Interest Income	\$ 104,780	\$ 22,153	\$ 82,627
Miscellaneous Income	48,410	45,991	2,419
Total Other Income	<u>\$ 153,190</u>	<u>\$ 68,144</u>	<u>\$ 85,046</u>
 <u>NET INCOME</u>	 <u>\$ 173,171</u>	 <u>\$ 160,183</u>	 <u>\$ 12,988</u>

Family Care Outpatient Center, Inc.
 STATEMENT OF FUND BALANCE
 For the Year Ended June 30, 1982

	<u>TOTAL</u>	<u>FCOC</u>	<u>UNIVERSITY PHYSICIANS</u>
<u>FUND BALANCE</u> , June 30, 1981	\$1,790,913	\$ 437,560	\$1,353,353
Contributions (Note 3)	3,999	3,999	-0-
Net Income	<u>173,171</u>	<u>160,183</u>	<u>12,988</u>
<u>FUND BALANCE</u> , June 30, 1982	<u>\$1,968,083</u>	<u>\$ 601,742</u>	<u>\$1,366,341</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

Family Care Outpatient Center, Inc.
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended June 30, 1982

FUNDS PROVIDED

Net Income	\$ 173,171	
Add: Expenses not requiring an outlay of Working Capital-		
Depreciation	25,078	
Amortization	27,585	
Total Provided by Operations	\$ 225,834	
Disposal of Fixed Assets	39,621	
Contributions	3,999	
Decrease in Securities	320,554	
Total Funds Provided		\$590,008

FUNDS APPLIED

Increase in Deposits	\$ 163	
Purchase of Fixed Assets	288,367	
Reduction of Lease Commitment	1,569	
Increase in Working Capital	299,909	
Total Funds Applied		\$590,008

SCHEDULE OF CHANGES IN WORKING CAPITAL

INCREASE (DECREASE) IN CURRENT ASSETS

Cash - Family Care Outpatient Center, Inc.	\$ (47,392)	
Cash - University Physicians	(210,186)	
Accounts Receivable (Net)	(49,708)	
Inventory	(3,484)	
Investments in Securities	623,585	
Prepaid Expenses	3,066	
Total Increase (Decrease) in Current Assets		\$315,881

INCREASE (DECREASE) IN CURRENT LIABILITIES

Taxes	\$ 6,933	
Accrued Expenses	9,039	
Total Increase (Decrease) in Current Liabilities		15,972

INCREASE (DECREASE) IN WORKING CAPITAL

\$299,909

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

Family Care Outpatient Center, Inc.
 NOTES TO THE FINANCIAL STATEMENT
 June 30, 1982

NOTE: #1 - SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable - The organization had trade accounts receivable at June 30, 1982 of \$1,213,350. \$345,343 of this amount has been reserved as an allowance for uncollectible accounts.

Inventory - Inventory is valued at the lower of cost or market.

Depreciation - The Organization depreciates its fixed assets on a straight line basis over the estimated useful lives.

Income Tax - The Organization is exempt from Federal Income Tax Under Section 501 (c) (3) of the Internal Revenue Code.

Equipment Leases - Certain items of equipment are leased for periods of varying length. The aggregate monthly rental is \$2,165.

NOTE: #2 - LEASE COMMITMENT

On February 1, 1977, the Organization entered into a lease with the West Virginia Board of Regents for its facilities at 1801 Sixth Avenue, Huntington, West Virginia. The terms of the lease provide for \$1.00 annual rental. In addition, the Organization must make, or reimburse the Board of Regents for, property improvements during the lease period which ends June 30, 1982, in an amount not to exceed \$163,000. The total rental commitment of \$163,000 was recognized as deferred lease expense to be amortized over the period.

Transactions during the current year were as follows:

	<u>Deferred Lease Expense</u>	<u>Capitalized Lease Obligation</u>
Balance June 30, 1981	\$ 27,585	\$19,419
Improvements made		(969)
One year's amortization of rental expense (27,585)	<u>(27,585)</u>	<u> </u>
Balance June 30, 1982	<u>\$ -0-</u>	<u>\$18,450</u>

The remaining \$18,450 has been set aside to be used for remodeling in the early part of fiscal year 1983 after the move to the Veterans Administration site by the School of Medicine Basic Sciences Section.

Family Care Outpatient Center, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1982

NOTE: #3 - CONTRIBUTIONS

Contributions were funds expended on behalf of Family Care Outpatient Center, Inc. for building improvements; these funds were provided from Marshall University Foundation funds. In addition, a Grass 8-10 EEG Equipment and Photic Stimulator were donated by the Owen Clinic Institute, Inc., Huntington, WV.

NOTE: #4 - INTER-COMPANY ADVANCE

University Physicians division advanced \$130,000 to the FCOC division towards the purchase of an IBM System 38 computer. These funds are to be paid in four annual installments of \$32,500 each without interest.

NOTE: #5 - SECURITIES

Securities consist of Certificates of Deposit and shares of money market funds - E.F. Hutton, National Liquid Reserve and Merrill Lynch Ready Asset Trust.

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Encil Bailey, Legislative Auditor, do hereby certify that the report appended hereto was made under my direction and supervision and that the same is a true and correct copy of said report.

Given under my hand this 17th day of January,
1983.

Encil Bailey

Encil Bailey, Legislative Auditor

Copy forwarded to the Commissioner of the Department of Finance and Administration to be filed as a public record. Copies forwarded to Marshall University; West Virginia Board of Regents; Attorney General; Governor; and, State Auditor.