



**Financial and Compliance Report  
December 31, 2018**

DHHR - Finance

JUL 10 2019

Date Received



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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND OTHER SUPPLEMENTARY INFORMATION

To the Board of Directors  
Minnie Hamilton Health System  
Grantsville, West Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of Minnie Hamilton Health System (the System), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and changes in net assets (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnie Hamilton Health System as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the years ended December 31, 2018 and 2017, 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* (Uniform Guidance), for the year ended December 31, 2018, is presented for purposes of additional analysis and is not a required part of the 2018 financial statements. Also, the accompanying schedule of non-federal awards for the year ended December 31, 2018, is presented for purposes of additional analysis of the 2018 financial statements and is not a required part of such 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 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 financial statements or to the 2018 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 2018 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 June 28, 2019, on our consideration of Minnie Hamilton Health System'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 for the year ended December 31, 2018. We issued a similar report for the year ended December 31, 2017, dated October 15, 2018, which has not been included with the 2018 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Annett Corbin Toothman LLP*

Charleston, West Virginia  
June 28, 2019

**MINNIE HAMILTON HEALTH SYSTEM**

**BALANCE SHEETS**

December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 394,166	\$ 414,430
Patient receivables, net of allowance for doubtful accounts of \$1,623,814 in 2018 and \$2,590,413 in 2017	2,576,271	2,409,722
Grants receivable	45,153	-
Supplies inventory	216,909	164,292
Prepaid expenses and other assets	200,286	438,926
<b>Total current assets</b>	<b>3,432,785</b>	<b>3,427,370</b>
PROPERTY AND EQUIPMENT, net	1,550,177	1,957,354
OTHER ASSETS	42,947	43,632
<b>Total assets</b>	<b>\$ 5,025,909</b>	<b>\$ 5,428,356</b>
<b>LIABILITIES AND NET (DEFICIT)</b>		
CURRENT LIABILITIES		
Line of credit	\$ 125,000	\$ 499,309
Current maturities of long-term obligations	290,896	165,492
Accounts payable and accrued expenses	1,230,957	2,380,528
Employee compensation, payroll withholdings, and taxes payable	1,052,450	1,046,998
Estimated third-party payor settlements	2,030,879	1,744,479
<b>Total current liabilities</b>	<b>4,730,182</b>	<b>5,836,806</b>
LONG-TERM OBLIGATIONS, net of current maturities	873,822	112,823
<b>Total liabilities</b>	<b>5,604,004</b>	<b>5,949,629</b>
NET (DEFICIT) WITHOUT DONOR RESTRICTIONS	(578,095)	(521,273)
<b>Total liabilities and net (deficit)</b>	<b>\$ 5,025,909</b>	<b>\$ 5,428,356</b>

See Notes to Financial Statements

**MINNIE HAMILTON HEALTH SYSTEM**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 19,966,643	\$ 18,049,172
Less: Provision for bad debts	<u>(1,218,608)</u>	<u>(891,797)</u>
<b>Net patient service revenue</b>	<b>18,748,035</b>	<b>17,157,375</b>
Federal, state and other grants	2,204,432	3,300,735
Contributions for operating expenses	4,075	11,538
Other operating revenue	<u>445,330</u>	<u>538,246</u>
<b>Total revenue, gains and other support</b>	<b><u>21,401,872</u></b>	<b><u>21,007,894</u></b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	12,376,921	12,889,643
Payroll taxes and benefits	2,065,555	2,140,042
Supplies and other expenses	2,905,559	2,607,527
Professional fees	2,605,475	3,099,766
Depreciation and amortization	425,918	612,696
Taxes	425,689	332,037
Utilities	370,098	382,156
Insurance	225,745	187,097
Interest	<u>75,008</u>	<u>121,613</u>
<b>Total expenses</b>	<b><u>21,475,968</u></b>	<b><u>22,372,577</u></b>
<b>Operating (loss)</b>	<b>(74,096)</b>	<b>(1,364,683)</b>
<b>NON-OPERATING REVENUE</b>		
Interest	2,481	4,296
Rental income	<u>14,793</u>	<u>15,598</u>
<b>Total non-operating revenue</b>	<b><u>17,274</u></b>	<b><u>19,894</u></b>
<b>Deficiency of revenue over expenses</b>	<b>(56,822)</b>	<b>(1,344,789)</b>
Net assets (deficit) without donor restrictions:		
Beginning of year	<u>(521,273)</u>	<u>823,516</u>
End of year	<b><u>\$ (578,095)</u></b>	<b><u>\$ (521,273)</u></b>

*See Notes to Financial Statements*

**MINNIE HAMILTON HEALTH SYSTEM**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Deficiency of revenue over expenses	\$ (56,822)	\$ (1,344,789)
Adjustments to reconcile deficiency of revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	425,918	612,696
Provision for bad debts	1,218,608	891,797
Change in assets and liabilities:		
(Increase) decrease in patient receivables	(1,385,157)	(815,529)
(Increase) decrease in grant receivables	(45,153)	20,744
(Increase) decrease in supplies inventory	(52,617)	(37,718)
(Increase) decrease in prepaid expenses and other assets	239,325	(80,732)
Increase (decrease) in accounts payable and accrued expenses	(825,519)	790,447
Increase (decrease) in estimated third-party payor settlements	286,400	288,706
Increase (decrease) in deferred revenue	-	(166,451)
<b>Net cash provided by (used in) operating activities</b>	<b>(195,017)</b>	<b>159,171</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(18,741)	(130,460)
<b>Net cash (used in) investing activities</b>	<b>(18,741)</b>	<b>(130,460)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit borrowings, net of repayments	(374,309)	297,400
Proceeds from long-term obligations	1,000,000	-
Principal payments on long-term obligations	(432,197)	(347,583)
<b>Net cash provided by (used in) financing activities</b>	<b>193,494</b>	<b>(50,183)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(20,264)</b>	<b>(21,472)</b>
Cash and cash equivalents:		
Beginning	414,430	435,902
Ending	\$ 394,166	\$ 414,430
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 75,008	\$ 121,613
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Accounts payable refinanced on a long-term basis	\$ 318,600	\$ -
Property and equipment acquired through capital lease obligations	\$ -	\$ 8,904

See Notes to Financial Statements

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Minnie Hamilton Health System (the System) is a not-for-profit organization located in Grantsville, West Virginia, which provides acute medical services and outpatient services to citizens of Calhoun County and surrounding areas.

#### **A summary of significant accounting policies follows:**

**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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts, depreciable lives of property and equipment, and in determining the due from/to third-party payors. It is at least reasonably possible that the significant estimates used will change within the next year.

**Cash and cash equivalents:** For purposes of reporting the statement of cash flows, the System considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The System maintains cash in demand deposit accounts with a Federally insured bank. At times the balances in these accounts may be in excess of Federally insured limits. In management's opinion, the amounts in excess of Federally insured limits do not pose a significant risk.

**Patient accounts receivable:** Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to the provision for bad debt expense when received. Interest is not charged on patient accounts receivable. The System's allowance for doubtful accounts for self-pay patients was 74% and 70% of self-pay accounts receivable at December 31, 2018 and 2017. The System has not changed its charity care or uninsured discount policies during 2018 or 2017.

**Supplies inventory:** Supplies inventory is stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or net realizable value.

**Property and equipment:** Property and equipment acquisitions are recorded at cost. Donated assets are recorded at fair value at the date of contribution. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Buildings and equipment under capital lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Amortization of capital lease assets is included in depreciation expense.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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

During the year ended December 31, 2005, the System received emergency preparedness equipment acquired by the Calhoun County Commission and by the West Virginia Division of Homeland Security and Emergency Management through the expenditure of Federal financial assistance from the U.S. Department of Homeland Security. This equipment is considered to be owned by the System while it is used in authorized programs; however, the U.S. Department of Homeland Security has a reversionary interest in the equipment. Disposition of this equipment and the ownership of any proceeds resulting from dispositions is subject to Federal regulations and requirements.

**Net assets (deficit):** Net assets (deficit), revenue, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets (deficit) of the System and changes therein are classified and reported as follows:

**Net assets (deficit) 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 whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

**Net assets with donor restrictions** - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no net assets with donor restrictions at December 31, 2018 and 2017.

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

**Statements of operations:** For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

**Deficiency of revenue over expenses:** The statements of operations include deficiency of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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**Net patient service revenue:** Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Grant revenue:** Federal, state and other grant revenue resulting from exchange transactions are recognized by the System as related grant program expenses are incurred. Grant funds received in advance of the incurrence of related expenses are reflected as deferred revenue in the accompanying balance sheets.

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

**Income taxes:** The System is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (Code) and is recognized as tax exempt under 501(a) of the Code. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require the System to evaluate tax positions taken by the System and recognize a tax liability or asset if the System has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The System has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

Generally, tax returns for years ended December 31, 2015, and thereafter remain subject to examination by federal and state tax authorities.

**Advertising expense:** The System expenses advertising as it is incurred. Advertising expense was \$9,668 and \$14,493 for the years ended December 31, 2018 and 2017, respectively.

**Reclassification:** Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

**Subsequent events:** The System has evaluated subsequent events through June 28, 2019, the date on which the financial statements were available to be issued.

#### **New or recent accounting pronouncements:**

**Revenue Recognition:** In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The System will adopt this guidance for the year ending December 31, 2019.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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**Leases:** In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. The System is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, financial statements.

In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*. The amendments in this ASU provide entities with an additional (and optional) transition method to adopt the new leases standard. The amendments also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and certain criteria are met. The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02. The practical expedient may be elected either in the first reporting period following the issuance of this Update or at the original effective date of Topic 842 for that entity. The practical expedient may be applied either retrospectively or prospectively. The System is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, financial statements.

In March 2019, the FASB issued ASU 2019-01, *Leases* (Topic 842): *Codification Improvements*. This amendment affects narrow aspects of the guidance issued in the amendments in ASU 2016-02, including the determination of the fair value of the underlying asset by lessors who are not manufacturers or dealers, the cash flow presentation of principal payments on sales type and direct financing leases for financial services – depository and lending institutions within the scope of Topic 942, as well as provides certain exceptions for both lessees and lessors for certain interim disclosures required by the adoption of the standard. The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but can be early adopted. The effective date and transition requirements for the amendments in this Update for entities is the same as the effective date and transition requirements in Update 2016-02. The System is currently evaluating the impact, if any, that adoption will have on its December 31, 2020, financial statements.

**Not-for-Profit Entities:** On August 2016, the FASB issued Accounting Standards Update No. 2016-14 *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The System adopted this guidance during the year ended December 31, 2018. Adoption of this guidance did not have a material impact on the System's financial statements.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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In June 2018, the FASB issued Accounting Standards Update No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The System is currently evaluating the impact, if any, that adoption will have on its December 31, 2020 financial statements.

**Statement of Cash Flow:** In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The System is currently evaluating the impact, if any, that adoption will have on its December 31, 2019, financial statements.

#### Note 2. Estimated Third-Party Payor Settlements and gain contingency

Estimated third-party payor settlements consist of amounts with the Medicare and Medicaid program for cost reports as follows:

	2018	2017
Due (to) third-party payors:		
Medicaid disproportionate share	\$ (1,917,941)	\$ (2,254,195)
Due (from)/(to) third-party payors:		
Medicare	(183,801)	397,848
Medicaid	70,863	111,868
	<u>(112,938)</u>	<u>509,716</u>
<b>Total</b>	<b>\$ (2,030,879)</b>	<b>\$ (1,744,479)</b>

**Medicaid disproportionate share program settlement:** On December 4, 2015 the West Virginia Department of Health and Human Resources (WVDHHR) received a letter ruling from the Region III office of the Center for Medicare and Medicaid Services (CMS) on the inclusion of the Hospital based rural health clinic cost in the Medicaid DSH calculation. The System has historically included the cost of hospital based rural health clinics (RHCs) within the Medicaid DSH calculation in accordance with policies established by the WVDHHR. The ruling from CMS states that although States have the flexibility to define the scope of "hospital services", a State cannot include the cost of a service not defined under its Medicaid State plan as a Medicaid inpatient or outpatient service. Based upon that interpretation, cost of operating the Hospitals RHCs will not be reimbursed as a part of the cost of uncompensated care. As of the date of this report, the WVDHHR has appealed that decision and is waiting for a ruling from CMS.

Therefore, at December 31, 2018, the Hospital estimated and recognized a payable for the Medicaid DSH cost based upon uninsured hospital based RHC cost for the years 2011 through 2018 of approximately \$2,328,000. This estimated liability is included in the settlement amount above.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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**Medicaid provider tax disallowance:** The Centers for Medicare and Medicaid Services (CMS) has recently directed some local intermediaries to disallow the cost of provider taxes claimed in cost reports. Hospitals claimed the tax assessment as an allowable cost under the applicable regulations and the Provider Reimbursement Manual (PRM) sections. Hospitals have relied upon the fact that CMS approved applicable State Plan Amendments relating to the Provider Tax Assessments. The System paid the provider tax and included it as an allowable expense. The disallowance may be applied retroactively for several years and the impact could be significant, depending upon various factors. Management and various associations representing affected hospitals plan to appeal the disallowance. The ultimate outcome of the issue is unknown at this time.

**Gain contingency:** Subsequent to year end, the System received settlement information regarding Medicaid DSH years 2011 through 2014 that could result in a significant gain through a reduction of liabilities currently recorded on the balance sheets. Due to the overall complexity of the DSH program and settlement outstanding for other years, the system has decided to wait for additional information before determining what adjustment, if any, is appropriate. The potential gain from the ultimate settlement of the DSH audits could approximate \$2 million. Due to management considering the potential settlements as a gain contingency, the amount has not been recognized in the accompanying financial statements.

#### Note 3. Property and Equipment

A summary of the components of property and equipment as of December 31, 2018 and 2017, is as follows:

	2018	2017
Building	\$ 2,427,431	\$ 2,427,431
Leasehold improvements	462,218	462,218
Equipment and furniture	8,321,666	8,302,925
Construction in progress	145,746	145,746
	<u>11,357,061</u>	<u>11,338,320</u>
Less accumulated depreciation and amortization	9,806,884	9,380,966
<b>Property and equipment, net</b>	<b><u>\$ 1,550,177</u></b>	<b><u>\$ 1,957,354</u></b>

Capital lease assets at December 31, 2018 and 2017, included in property and equipment are as follows:

	2018	2017
Building and equipment	\$ 686,920	\$ 686,920
Less accumulated depreciation and amortization	462,581	356,514
	<u>\$ 224,339</u>	<u>\$ 330,406</u>

#### Note 4. Line of Credit

The System has a \$500,000 line of credit with a variable interest rate of equal to the Prime Rate plus 2% (7.50% at December 31, 2018) and to be no less than 4.00%. The outstanding amount due for the years ended December 31, 2018 and 2017, was \$125,000 and \$499,309, respectively. The line of credit matures in April 2020.

**MINNIE HAMILTON HEALTH SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**Note 5. Long-Term Obligations**

A summary of long-term obligations is as follows:

	2018	2017
Note payable, bank, payable in 96 monthly installments of \$13,011, with interest at a variable rate based on 3.00% plus the monthly average yield on United States Treasury securities with a floor of 4.00% and a ceiling of 8.63% (5.63% at December 31, 2018). Maturing July 2026. The loan is secured by substantially all of the System's assets.	\$ 959,123	\$ -
Note payable, CPSI, Inc., payable in 24 monthly installments of \$6,629 maturing February 2020. Note is unsecured.	92,810	-
Note payable, bank, payable in monthly installments \$13,862, including interest at a fixed rate of 5%, maturing February 2018, secured by the System's accounts receivable. Paid off in 2018.	-	27,600
Note payable, The Center for Rural Health Development, Inc., payable in monthly installments of \$3,786 including an interest rate which is fixed at 4.5% for the first 36 months, after which time it will go to a variable rate of Prime plus 1.25% for the remainder of the term, maturing February 2018, secured by equipment acquired under the obligation. Paid off in 2018.	-	7,894
Capital lease obligations, with interest ranging from 9.56%, to 10.50% payable in monthly installments of \$702 to \$13,324, maturing August 2018 to September 2020, secured by the equipment acquired under the obligations.	112,785	242,821
Total	<u>1,164,718</u>	<u>278,315</u>
Less current maturities	<u>290,896</u>	<u>165,492</u>
Long-term obligations	<u>\$ 873,822</u>	<u>\$ 112,823</u>

Aggregate maturities of long-term obligations at December 31, 2018 are as follows:

	Capital Lease Obligations			Long-Term Debt
	Principal	Interest	Total	
2019	\$ 107,256	\$ 2,984	\$ 110,240	\$ 183,640
2020	5,529	52	5,581	123,280
2021	-	-	-	116,637
2022	-	-	-	123,472
2023	-	-	-	130,708
Thereafter	-	-	-	374,196
	<u>\$ 112,785</u>	<u>\$ 3,036</u>	<u>\$ 115,821</u>	<u>\$ 1,051,933</u>

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 6. Donated Use of Facilities and Equipment from Calhoun County Building Commission**

The System has a lease arrangement with the Calhoun County Building Commission (the Commission) for use of the building and equipment that was utilized by Calhoun General Hospital, Inc. prior to its closing. The lease runs through December 2095. Under terms of the lease agreement, the System was to make monthly payments to the Commission in sufficient amounts for it to meet its debt service obligations on the facilities. After the Commission liquidated its debt obligations during 1999, lease payments were reduced to \$1 per year for the remainder of the lease term.

As the present value of projected lease payments at the lease's inception was substantially less than the fair rental value of the facilities, a restricted donation of \$771,818 was recognized by the System in 1996. This amount represented the difference between the estimated fair rental value of the leased assets and the present value of the projected lease payments.

#### **Note 7. Net Patient Service Revenue**

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. For Medicare and Medicaid, the System is classified as a Critical Access Hospital (CAH) and receives special reimbursement treatment.

CAHs receive payments on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients. Designation of the Hospital as a CAH reduces the risk of further cuts in payment rates for Medicare and Medicaid services.

A summary of the payment arrangements with major third-party payors is as follows:

- **Medicare**

Inpatient acute care services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The System receives reimbursement at 101% of allowable costs less a sequestration reduction of 2% for Medicare inpatient, swing bed and outpatient services. Other outpatient services are paid based on fee schedules.

The System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

- **Medicaid**

Inpatient and most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and review thereof by the Medicaid fiscal intermediary. Other outpatient services are reimbursed based upon the lesser of the System's charge or predetermined fee schedule amounts.

- **Managed Care and Other Commercial Insurance Carriers**

The System has also entered into payment agreements with certain commercial insurance carriers. Health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge and discounts from established charges.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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A summary of gross and net patient service revenue for all payors is as follows:

	2018	2017
Gross patient service revenue	\$ 25,873,157	\$ 25,737,828
Less provision for:		
Provision for contractual adjustments	5,633,838	7,387,888
Charity care (charges forgone based on established rates)	272,676	300,768
Bad debts	1,218,608	891,797
<b>Net patient service revenue</b>	<b>\$ 18,748,035</b>	<b>\$ 17,157,375</b>

As a result of special provisions of the Omnibus Budget Reconciliation Act of 1987, the System qualifies as a disproportionate share hospital. As a result of qualifying for this designation, the System is entitled to supplemental Medicaid payments. Included in net patient revenues are Medicaid disproportionate share revenues of approximately \$1,444,001 and \$921,308 for 2018 and 2017, respectively.

The State of West Virginia Disproportionate Share Hospital (DSH) State Plan provides for a settlement process among participating hospitals. DSH audits through 2010 have been settled with no cash settlement. For fiscal 2011 and future years, settlements could occur. It is at least reasonably possible that the final settled amounts will differ from the amounts received and those differences could be material. Management is unable to determine what those differences could be because the laws and regulations governing Medicaid DSH payments are complex and subject to interpretation. The System has estimated settlement amounts payable for years subject to cost settlement which is netted against the DSH amounts receivable for the quarterly payment due December 31, 2018.

As disclosed in Note 2, the System has recorded amounts for cost report settlements with Medicare and Medicaid. The 2018 and 2017 net patient service revenue was increased by approximately \$47,000 and by \$83,000, respectively, as a result of settlements at amounts different than originally estimated.

#### Charity Care

The System provides charity care to patients who are financially unable to pay for the health care services they receive. The System's policy is not to pursue collection of amounts determined to qualify as charity care if the patient has an adjusted income equal to or below 100% of the Federal Poverty Income levels. A sliding scale discount is applied for patients up to 200% of the Federal Poverty Guidelines. Accordingly, the System does not report these amounts in the net revenues or in the allowance for doubtful accounts. The estimated costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The costs of caring for charity care patients for the years ended December 31, 2018 and 2017 were approximately \$228,000 and \$260,000, respectively. The System is the recipient of various grants and disproportionate share revenues that are used to offset the costs of providing charity care.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended December 31, 2018 and 2017, from these major payor sources, is as follows:

**MINNIE HAMILTON HEALTH SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

2018	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 19,009,292	\$ 957,351	\$ 19,966,643
2017	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 16,888,141	\$ 1,161,031	\$ 18,049,172

**Note 8. Concentrations of Credit Risk**

The System is located in Calhoun County, West Virginia. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of net receivables from the System's patients and third-party payors is as follows:

	2018	2017
Medicare	48 %	44 %
Medicaid	20	24
Other third-party payors	17	19
Private pay	15	13
	<u>100 %</u>	<u>100 %</u>

**Note 9. Classification of Expenses**

Operating expenses by functional category are as follows:

	2018			
	Total Expenses	Patient Care and Other Program Expense	Support Services	General and Administrative
Salaries and wages	\$ 12,376,921	\$ 8,847,331	\$ 1,354,661	\$ 2,174,929
Payroll taxes and benefits	2,065,555	1,476,510	226,076	362,969
Supplies and other expenses	2,905,559	2,076,966	318,015	510,578
Professional fees	2,605,475	1,862,458	285,171	457,846
Depreciation and amortization	425,918	304,457	46,617	74,844
Taxes	425,689	304,293	46,592	74,804
Utilities	370,098	264,556	40,507	65,035
Insurance	225,745	161,368	24,708	39,669
Interest	75,008	53,617	8,210	13,181
<b>Total operating expenses</b>	<u>\$ 21,475,968</u>	<u>\$ 15,351,556</u>	<u>\$ 2,350,557</u>	<u>\$ 3,773,855</u>

**MINNIE HAMILTON HEALTH SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

	2017			
	Total Expenses	Patient Care and Other Program Expense	Support Services	General and Administrative
Salaries and wages	\$ 12,889,643	\$ 9,213,837	\$ 1,410,778	\$ 2,265,028
Payroll taxes and benefits	2,140,042	1,529,755	234,229	376,058
Supplies and other expenses	2,607,527	1,863,925	285,395	458,207
Professional fees	3,099,766	2,215,790	339,271	544,705
Depreciation and amortization	612,696	437,970	67,060	107,666
Taxes	332,037	237,348	36,342	58,347
Utilities	382,156	273,175	41,827	67,154
Insurance	187,097	133,742	20,478	32,877
Interest	121,613	86,932	13,311	21,370
<b>Total operating expenses</b>	<b>\$ 22,372,577</b>	<b>\$ 15,992,474</b>	<b>\$ 2,448,691</b>	<b>\$ 3,931,412</b>

**Note 10. Grant Funding**

The composition of various grant related items included in the financial statements for the year ended December 31, 2018, are as follows:

	Revenue	Grants Receivable
<b>FEDERAL FUNDING</b>		
Community Health Systems Program	\$ 1,989,870	\$ -
State Loan Repayment Program	17,500	-
Health Infrastructure Investment Program	4,500	-
	<u>2,011,870</u>	-
<b>STATE FUNDING</b>		
Uncompensated Care	118,462	45,153
State Loan Repayment Program	17,500	-
Recruitment and Retention Community Project	20,000	-
	<u>155,962</u>	45,153
<b>OTHER FUNDING</b>		
Parkersburg Area Community Foundation	11,600	-
Sisters Health Foundation	15,000	-
Delta Dental Community Care Foundation	10,000	-
	<u>36,600</u>	-
	<u>\$ 2,204,432</u>	<u>\$ 45,153</u>

**MINNIE HAMILTON HEALTH SYSTEM****NOTES TO FINANCIAL STATEMENTS**

The composition of various grant related items included in the financial statements for the year ended December 31, 2017, are as follows:

	Revenue	Grants Receivable
<b>FEDERAL FUNDING</b>		
Community Health Systems Program	\$ 3,093,598	\$ -
Small Hospital Improvement Program	2,210	-
Public Health and Social Emergency Fund	9,000	-
Breast Cancer Learning Community Project	39,305	-
Health Infrastructure Investment Program	1,500	-
	<u>3,145,613</u>	<u>-</u>
<b>STATE FUNDING</b>		
Uncompensated Care	135,122	-
Recruitment and Retention Community Project	10,000	-
	<u>145,122</u>	<u>-</u>
<b>OTHER FUNDING</b>		
Delta Dental Community Care Foundation	10,000	-
	<u>10,000</u>	<u>-</u>
	<u>\$ 3,300,735</u>	<u>\$ -</u>

The System was awarded federal funding through the Community Health Systems Program for the period June 1, 2017 through May 31, 2018 and for the period June 1, 2018 through May 31, 2019 in the amount of \$2,687,657 and \$2,781,495, respectively. Revenue recognized and cash drawn down related to these programs for the year ended December 31, 2018 was \$1,989,870. At December 31, 2018, \$1,078,685 was available for draw down for the remaining period January 1, 2019 through May 31, 2019.

The System was awarded state funding through the Uncompensated Care Program for the period July 1, 2017 through June 30, 2018 and for the period July 1, 2018 through June 30, 2019 in the amount of \$126,394 and \$107,506, respectively. Revenue recognized related to these programs for the year ended December 31, 2018 was \$118,462 for which \$45,153 was recorded as a receivable at December 31, 2018. At December 31, 2018, \$107,506 was available for draw down for the remaining period January 1, 2019 through June 30, 2019.

**Note 11. Medical Malpractice Claims**

The System is insured with respect to medical malpractice risks under a claims made professional liability insurance policy. This arrangement provides coverage to the System for all asserted malpractice claims up to \$1,000,000 for each occurrence and a \$3,000,000 aggregate limit. Incidents occurring through December 31, 2018, may result in the assertion of a claim and other claims may be asserted arising from past services provided. Management is not aware of any claims that have been asserted or are unasserted at December 31, 2018. The System has a deductible of \$40,000 for each occurrence and \$150,000 in the aggregate.

## MINNIE HAMILTON HEALTH SYSTEM

### NOTES TO FINANCIAL STATEMENTS

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The System's health professionals are also covered by the Federal Tort Claims Act and therefore, no professional liability insurance is necessary for services provided under the scope of the Community Health Center. Pursuant to Section 224 of the Public Health Service Act (PHS), 42 USC 233, the Federal Tort Claims Act covers alleged negligent medical care during the performance of official duties for Community Health Centers funded under Section 330 of the PHS Act. Under the Federal Tort Claims Act, the U.S. Government consented to be sued for any damage to property or for personal injury or death caused by the negligence or wrongful act or omission of Federal employees who were acting within the scope of their employment.

#### Note 12. Rental Expense

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

Future minimum lease payments under operating leases as of December 31, 2018 that have initial or remaining lease terms in excess of one year are as follows:

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2019	\$	185,265
2020		169,360
2021		169,360
2022		169,360
2023		169,360
Thereafter		<u>5,165,479</u>
	\$	<u>6,028,184</u>

Total rental expense in 2018 and 2017 for all operating leases was approximately \$199,800 and \$227,700, respectively.

#### Note 13. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the System is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the System is found in violation of these laws, the System could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs.

#### Note 14. Retirement Plan

The System has a 401(k) retirement plan for eligible employees whereby the System may provide for a discretionary match contribution to employee contributions. The amount of the employer's discretionary contributions is based upon employee contributions not to exceed certain percentages of eligible compensation. Employer expense totaled approximately \$292,000 and \$239,000 for 2018 and 2017, respectively.

**MINNIE HAMILTON HEALTH SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 15. Liquidity and Availability**

As of December 31, 2018, the System has a working capital deficit of approximately \$(1,297,397), and approximately 6.8 days cash on hand.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2018:

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Cash and cash equivalents	\$	394,166
Patient receivables, net		2,576,271
Grants receivable		45,153
	\$	<u>3,015,590</u>

**MINNIE HAMILTON HEALTH SYSTEM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended December 31, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct Awards:				
Health Center Program Cluster				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)				
	93.224	-	\$ -	\$ 294,708
Grants for New and Expanded Services Under the Health Center Program				
	93.527	-	-	1,695,162
Health Center Program Cluster Total				<u>-</u>
Grants for Capital Development in Health Centers				4,500
<b>Total Direct Awards</b>				<u><u>-</u></u> 1,994,370
Passed through:				
West Virginia Department of Health and Human Resources:				
Grants to States for Loan Repayment Program				
	93.165	G180670	-	17,500
<b>Total Indirect Awards</b>				<u><u>-</u></u> 17,500
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ -</u></u>	<u><u>\$ 2,011,870</u></u>

*See Notes to Schedule of Expenditure of Federal Awards*

**MINNIE HAMILTON HEALTH SYSTEM**

**NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
Year Ended December 31, 2018**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the Federal award activity of Minnie Hamilton Health System under programs of the federal government for the year ended December 31, 2018. 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 Minnie Hamilton Health System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Minnie Hamilton Health System.

**Note 2. Summary of Significant Accounting Policies**

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

**Note 3. Indirect Cost Rate**

Minnie Hamilton Health System has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs are charged to the programs.

## MINNIE HAMILTON HEALTH SYSTEM

SCHEDULE OF NONFEDERAL AWARDS  
Year Ended December 31, 2018

Grantor	Ref #	Grant Program	Grant Period	Awarded Amount	Amount Drawn Down (Cumulative)	Amount Available	Grant Expenditures	Grant Receivable	Deferred Grant Revenue
WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN RESOURCES									
Bureau for Public Health, Office of Community Health Systems	G180361	Uncompensated Care	7/1/2017 6/30/2018	\$ 126,397	\$ 126,397	\$ -	\$ 73,309	\$ -	\$ -
Bureau for Public Health, Office of Community Health Systems	G190615	Uncompensated Care	7/1/2018 6/30/2019	107,506	-	107,506	45,153	45,153	-
Bureau for Public Health, Office of Community Health Systems	G180496	Recruitment and Retention Community Project	10/1/2017 6/30/2018	20,000	20,000	-	20,000	-	-
Bureau for Public Health, Office of Community Health Systems	G180670	State Loan Repayment Program	1/1/2018 6/30/2018	17,500	17,500	-	17,500	-	-
<b>Total State Awards</b>				<b>271,403</b>	<b>163,897</b>	<b>107,506</b>	<b>155,962</b>	<b>45,153</b>	<b>-</b>
Parkersburg Area Community Foundation	N/A	Community Action Grant	2018	11,600	11,600	-	11,600	-	-
Sisters Health Foundation	N/A	Pre-molars Are Molars Too	11/14/2018 11/14/2019	15,000	15,000	-	15,000	-	-
Delta Dental Community Care Foundation	N/A	Access to Care	2018	10,000	10,000	-	10,000	-	-
<b>Total Other Funding</b>				<b>36,600</b>	<b>36,600</b>	<b>-</b>	<b>36,600</b>	<b>-</b>	<b>-</b>
<b>Total Non-federal Awards</b>				<b>\$ 308,003</b>	<b>\$ 200,497</b>	<b>\$ 107,506</b>	<b>\$ 192,562</b>	<b>\$ 45,153</b>	<b>\$ -</b>



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

To the Board of Directors  
Minnie Hamilton Health System  
Grantsville, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Minnie Hamilton Health System (the System), which comprise the balance sheet, as of December 31, 2018, and the related statement of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

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

## 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Annett Carlin Toothman LLP*

Charleston, West Virginia  
June 28, 2019

DHHR - Finance

JUL 10 2019

Date Received

**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE***

To the Board of Directors  
Minnie Hamilton Health System  
Grantsville, West Virginia

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

We have audited Minnie Hamilton Health System's (the System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2018. The System's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the System'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 Requirement, Cost Principles, and Audit Requirements 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 System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control Over Compliance

Management of the System 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 System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 System's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

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

*Annett Carbis Toothman LLP*

Charleston, West Virginia  
June 28, 2019

DHHR - Finance

JUL 10 2019

Date Received

**MINNIE HAMILTON HEALTH SYSTEM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2018**

**SECTION I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

*Financial Statements*

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes      X   no

*Federal Awards*

Internal Control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

\_\_\_\_\_ yes      X   no

Identification of major programs:

CFDA Number	Name of Federal Program	Amount Expended
	U.S. Department of Health and Human Services Direct award: Health Centers Cluster:	
93.224/93.527	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) and Grants for New and Expanded Services Under the Health Center Program	<u>\$ 1,989,870</u>

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

\$ 750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes      X   No

**MINNIE HAMILTON HEALTH SYSTEM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)**  
**Year Ended December 31, 2018**

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**SECTION II. FINANCIAL STATEMENT FINDINGS**

No matters are reported

**SECTION III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

No matters are reported

**MINNIE HAMILTON HEALTH SYSTEM**

**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2018**

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**Findings Required to be Reported by Government Auditing Standards:**

**2017-001 Account Reconciliations**

**Condition and Cause**

We observed the System did not timely reconcile the subsidiary records for some significant general ledger accounts (i.e. accounts receivable, federal and state grant schedule, contractual and bad debt allowances, accounts payable, property and equipment, and accrued expenses accounts) during the year ended December 31, 2017. Subsidiary records for the federal and non-federal grant programs were properly maintained during the year to ensure accurate grant compliance financial reporting; however, the System did not reconcile those subsidiary records in a timely fashion to the general ledger control accounts to ensure accurate entity level financial reporting until several months after the related financial reporting periods had concluded.

During the fiscal 2017 year, there were significant changes in accounting systems and turnover of the controller. This resulted in delays in the significant general ledger accounts.

**Recommendation**

We recommended that management put in place a better process of reconciling all significant general ledger accounts and implement a timeline and list of duties to ensure the System achieves timely reporting of monthly and annual reports.

**Current Status**

Management was able to resolve the reconciling issues during the current year.

**2017-002 Depreciation of Capital Lease Assets**

**Condition and Cause**

We observed the System entered into capital leases in past years and recorded the respective assets in the general ledger but failed to depreciate the assets over their useful life. This has caused accumulated depreciation and depreciation and amortization expense to be understated by \$106,500.

**Recommendation**

We recommended that management develop policies and procedures to track the capitalization and depreciation of assets purchased or acquired through capital leases. We also recommended management perform a property and equipment observation to ensure all equipment has been properly capitalized or disposed of on the general ledger and sub-ledger.

**Current Status**

Management was able to resolve the issues during the current year.

**MINNIE HAMILTON HEALTH SYSTEM**

**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended December 31, 2018**

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**2017-003**

**Condition and Context:** The federal reporting deadline for Minnie Hamilton Health System' Single Audit Reporting Package was September 30, 2018; however, Minnie Hamilton Health System did not issue their Single Audit Reporting Package until October 2018.

**Cause:** Minnie Hamilton Health System had delays in reconciling balance sheet accounts and turnover within executive management and accounting department. Minnie Hamilton Health System also implemented new electronic health records system, which lead to delays in getting accurate accounting records.

**Recommendation:** It was recommended that Minnie Hamilton Health System file their Single Audit Reporting Package timely with the Federal Audit Clearinghouse going forward.

**Current Status:** Management was able to resolve the issues during the current year.