

October 29, 2008

To the Board of Directors  
E A. Hawse Health Center, Inc.  
Baker, WV

In planning and performing our audit of the financial statements of E A. Hawse Health Center, Inc. for the year ended May 31, 2008, we considered the Organization's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of certain matters that provide an opportunity for strengthening internal controls and operating efficiency. (We previously reported on the Organization's internal control in our report dated October 29, 2008 ) This letter does not affect our report dated October 29, 2008, on the financial statements of E A. Hawse Health Center, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

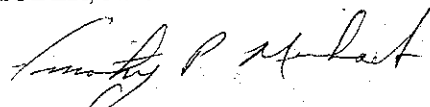
We noted a few financial oversight issues that would make reporting throughout the year more accurate. First, we recommend that on a monthly basis either the Chief Executive Officer, or someone appointed by him, review the balance sheet accounts to ensure that the balances in MAS-90 agree to the supporting documentation. The following item can be easily verified on a monthly basis:

1. Accounts Receivable should reconcile to the balance in HealthPro.

We wish to thank Gary Johnson, Brenda Varney, Leslie Sheets, and the remaining staff of E A. Hawse Health Center, Inc. for their assistance and hospitality during our audit and commend them for the cooperative attitude they have displayed in implementing suggestions we've made.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,  
HUBER, MICHAELS & CO

  
Timothy P. Michaels, CPA, CVA

October 29, 2008

To the Board of Directors of  
E A Hawse Health Center, Inc

We have audited the financial statements of E A Hawse Health Center, Inc. for the year ended May 31, 2008, and have issued our report thereon dated October 29, 2008. Professional standards require that we provide you with the following information related to our audit

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered E.A. Hawse Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether E A Hawse Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about E.A. Hawse Health Center's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on E.A. Hawse Health Center's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on E.A. Hawse Health Center's compliance with those requirements.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 10, 2008.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by E.A. Hawse Health Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements.

and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts receivable is based on historical collection rates. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful lives of fixed assets is based on historical experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 29, 2008.

*Management Consultations with Other Independent Accountants*

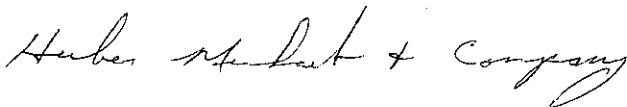
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of E.A. Hawse Health Center, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Huber, Michaels & Company

FEB - 5 2009

**E.A. HAWSE HEALTH CENTER, INC.**  
**FINANCIAL REPORT**  
**FOR THE YEARS ENDED MAY 31, 2008 AND 2007**

COMMERCIAL BANK OF ALABAMA  
FEB 13 2010

E.A. HAWSE HEALTH CENTER, INC.

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FEB - 6 2008



**Huber, Michaels  
& Company**

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
E.A. Hawse Health Center, Inc.  
Baker, West Virginia

We have audited the accompanying statements of financial position of E. A. Hawse Health Center, Inc. (a nonprofit organization) as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of E.A. Hawse Health Center, Inc. as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of E.A. Hawse Health Center Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of E. A. Hawse Health Center, Inc. taken as a whole. The schedule of awards is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cumberland, Maryland  
October 29, 2008

*Huber, Michaels & Company*

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION  
May 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$410,319	\$457,778
Investments	9,600	9,600
Accounts receivable, less allowance for doubtful accounts of \$88,547	520,575	466,746
Grants receivable	3,200	1,500
Miscellaneous other receivables	27,936	6,483
Inventory	82,386	62,390
Prepaid expenses	15,280	8,844
Total Current Assets	<u>1,069,296</u>	<u>1,013,341</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Net of accumulated depreciation	<u>1,810,714</u>	<u>1,397,191</u>
<b>TOTAL ASSETS</b>	<u>\$2,880,010</u>	<u>\$2,410,532</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$48,829	\$25,003
Accrued liabilities	120,177	197,200
Grant liabilities	63,395	64,634
Current portion of long term debt	21,248	18,586
Total Current Liabilities	<u>253,649</u>	<u>305,423</u>
<b>LONG TERM LIABILITIES</b>		
Deferred revenue	29,200	29,600
2004 Construction loan payable	261,299	270,658
2007 Construction loan payable	481,303	0
Capital lease, less current portion	8,903	0
Total Long Term Liabilities	780,705	300,258
Total Liabilities	<u>1,034,354</u>	<u>605,681</u>
<b>NET ASSETS</b>		
Unrestricted	1,776,852	1,734,808
Restricted	68,804	70,043
Total Net Assets	<u>1,845,656</u>	<u>1,804,851</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$2,880,010</u>	<u>\$2,410,532</u>

(See accompanying notes and Independent Auditors' Report)





E.A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS  
Years Ended May 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 40,805	\$ 90,077
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of property, plant and equipment	4,539	0
Depreciation	122,518	89,313
Change in:		
Accounts receivable	(53,829)	98,226
Grants receivable	(1,700)	500
Other miscellaneous receivables	(21,453)	(2,598)
Inventories	(19,996)	(11,440)
Prepaid expenses	(6,436)	(1,306)
Accounts payable	23,826	(18,594)
Accrued liabilities	(77,023)	2,727
Deferred revenue	(400)	29,600
Grant liabilities	(1,239)	717
Net cash provided by operating activities	<u>9,612</u>	<u>277,222</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<u>(527,891)</u>	<u>(107,174)</u>
Net cash used in investing activities	<u>(527,891)</u>	<u>(107,174)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from construction loan	490,895	0
Payments on line of credit	0	(7,000)
Payments on building loan	(18,086)	(49,277)
Payments on capital lease	(1,989)	(2,400)
Net cash provided/(used) by financing activities	<u>470,820</u>	<u>(58,677)</u>
Net increase/(decrease) in cash and cash equivalents	(47,459)	111,371
Beginning cash and cash equivalents	<u>457,778</u>	<u>346,407</u>
Ending cash and cash equivalents	<u>\$ 410,319</u>	<u>\$ 457,778</u>
Interest Paid	<u>\$ 37,847</u>	<u>\$ 26,164</u>

(See accompanying notes and Independent Auditors' Report)

**E.A. HAWSE HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

E.A. Hawse Health Center, Inc (the Organization) is a non-profit corporation organized under the laws of the State of West Virginia for the purpose of operating a community health center to provide health care to area residents. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar sections of the state statutes. The Organization has been classified by the Internal Revenue Service as a non-profit corporation.

Significant Accounting Policies

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in determining the collectability of accounts receivable, useful lives of fixed assets, and payments to be made on unreported medical claims. It is at least reasonably possible that the significant estimates used will change within the next year.

Basis of Presentation

Net assets and revenues and gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted** - Resources over which the Board of Trustees has discretionary control. Designated amounts represent those net assets which the Organization has set aside for a particular purpose.

E.A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES -  
Continued

Significant Accounting Policies - Continued

Basis of Presentation - Continued

**Temporarily restricted** - Resources subject to donor imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to the donors' stipulations. The Organization currently has temporarily restricted net assets of \$68,804. \$63,395 represents grant monies received but not yet earned and \$5,409 represents restricted land use.

**Permanently restricted** - Resources from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization currently has no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on deposit with financial institutions and brokerage firms, and all highly liquid debt investments purchased with an original maturity of three months or less.

Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost. Depreciation is computed by the straight-line method over estimated useful lives of the assets ranging from three to 40 years.

Revenue Recognition

The organization's major sources of revenue consist of patient fee revenue and public support in the form of Federal and State grants. Patient revenue is based on third party payor's maximum allowable fees coupled with regional market competitive pricing and is recognized when earned (billed). Grant revenue resulting from exchange transactions is recognized when the related costs are incurred.

E.A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES -  
Continued

Significant Accounting Policies - Continued

Investments

Investments in debt securities and equities are measured at fair value in the statement of financial position. Investment income, realized, and unrealized gains on investments are included in the change in net assets.

The Organization reports its investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments held by Not-for-Profit Organizations*. SFAS No. 124 establishes accounting standards for investments in certain equity securities and for all debt securities. The Statement prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities.

Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

NOTE 2 - CASH CONCENTRATIONS

As of May 31, 2008, the Organization had deposits at two financial institutions totaling \$518,204. Deposits at both of the financial institutions exceeded the FDIC coverage of \$100,000. The Organization has an agreement with Summit Community Bank to collateralize deposits in excess of the FDIC (Federal Deposit Insurance Corporation) limit with federal securities. The total market value of these pledged securities was \$60,727. The Organization also has an agreement with Capon Valley Bank to collateralize deposits in excess of the FDIC limit. The total market value of these pledged securities was \$300,000.

E.A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

The Organization currently holds 300 shares of equity securities with a fair market value of \$9,375 as of May 31, 2008. Carrying value on the financial statements is \$9,600. An adjustment is not made to record the investment at fair market value because it is immaterial to the financial statements. The Organization's cost of the securities is \$6,000. The Organization does not require collateral to secure its investments.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of May 31, 2008 and 2007 consist of:

	<u>2008</u>	<u>2007</u>
Patient and third party receivable	\$ 609,122	\$ 525,272
Allowance for adjustments and doubtful accounts	<u>88,547</u>	<u>58,526</u>
Net accounts receivable	<u>\$ 520,575</u>	<u>\$ 466,746</u>

The Organization's accounts receivable are not collateralized.

The Organization's policy for determining when receivables are past due or delinquent is as follows:

If payment is not received in ninety (90) days, a certified letter signed by the Finance Director is mailed to all patients with a delinquent balance advising the patient that unless they make payment in full on the accounts, or contact the Health Center within ten (10) days, their account will be placed in the hands of the collection agency. When an account has been submitted to the collection agency, the account is written off as bad debt.

NOTE 5 - GRANTS RECEIVABLE

Grants receivable consists of grant awards which have been spent as of May 31, 2008, for which reimbursement has not yet been received. Grants receivable of \$3,200 are to be collected in the next fiscal year. Management believes all current grant receivables to be collectable and, therefore, no allowance for doubtful accounts has been recorded.

**E.A. HAWSE HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT**

A summary of property, plant, and equipment is as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 38,638	\$ 38,638
Buildings	2,135,879	1,632,814
Equipment	946,790	930,706
Vehicles	<u>27,043</u>	<u>27,043</u>
	3,148,350	2,629,201
Less accumulated depreciation	<u>(1,337,636)</u>	<u>(1,232,010)</u>
Total Property and Equipment	<u>\$ 1,810,714</u>	<u>\$ 1,397,191</u>

Depreciation expense for the years ended May 31, 2008 and 2007 was \$122,518 and \$89,313 respectively.

**NOTE 7 - INVENTORY**

Inventories of materials and supplies are valued at cost, based on the last invoice price

**NOTE 8 - NET PATIENT SERVICE REVENUE**

The Organization provides services to patients which are paid or reimbursed at amounts different from that which are billed. Net patient service revenue for the year ended May 31, 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue	\$ 4,182,355	\$ 3,765,156
Policy discounts, sliding scale, and other adjustments	<u>(1,247,413)</u>	<u>(1,081,488)</u>
Net patient service revenue	<u>\$ 2,934,942</u>	<u>\$ 2,683,668</u>

**E.A. HAWSE HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - CONCENTRATIONS**

The Organization receives grant funds from the federal government and state government. Total grant revenue for the year ended May 31, 2008 is \$999,351. Three grant sources account for more than ninety nine (99%) of the total grant revenue. A loss of any of these grants funds would be material to the Organization.

The nature of geographical location and supply of health care providers in the local area make it necessary for the Organization to recruit physicians from other regions of the country. A loss of provider(s) has the ability to decrease revenue due to the time needed to recruit and relocate a new provider.

**NOTE 10 - LONG-TERM DEBT**

As of May 31, 2005, E A. Hawse Health Center, Inc. had a construction loan payable in the amount of \$379,354 for the addition to the facilities. In fiscal year 2006, the loan was refinanced for \$350,000 with interest at 6.99% and a maturity date of July 15, 2020. Principal and interest payments of \$3,150.59 are due monthly and began August 1, 2005. On September 4, 2008, after fiscal year end, this loan was refinanced again for \$270,000. The loan bears interest at 6.25% and the maturity date is September 4, 2028. Principal and interest payments of \$1,973.90 are due monthly and will begin October 4, 2008.

As of May 31, 2008, E A. Hawse Health Center, Inc. had another construction loan payable in the amount of \$490,895 for another addition to the facilities. The loan bears interest at 6.25% and interest only payments were made. On September 4, 2008, after fiscal year end, this loan was refinanced for \$560,000. The loan refinance bears interest at 6.25% and the maturity date is September 4, 2028. Principal and interest payments of \$4,094.02 are due monthly and will begin October 4, 2008.

E.A. Hawse also maintains a capital lease for a copier which was leased on August 27, 2007. The total amount financed was \$12,689.60. The lease bears interest at 9.368%. Payments of \$265.69 are made monthly through August 27, 2012.

**E.A. HAWSE HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - LONG-TERM DEBT – Continued**

Maturities of long-term debt are as follows:

2009	\$ 21,248
2010	24,923
2011	26,608
2012	28,410
2013	27,869
2014 and thereafter	643,695
Total	\$ 772,753

**NOTE 11 - CAPITALIZED INTEREST**

Interest and fees related to the construction loan in the amount of \$5,085 have been capitalized as part of the cost of the building addition.

**NOTE 12 - LEASE AGREEMENT**

E. A. Hawse Health Center, Inc. has a lease agreement with a pharmacist for the pharmacy located within the Health Center facility. Approximately 530 square feet of floor space is rented by the pharmacist for a fee of \$4,800 per year (\$400 per month) and is inclusive of all fixtures, housekeeping services, and utilities except for telephone. The lease agreement is for one year, and began on September 1, 2006.

E. A. Hawse Health Center, Inc. also has a lease agreement with Hemlock, LLC. This lease is for land that the Health Center owns, but where a nursing home is located. The original lease that began on August 9, 1983 stated that the lessee was to pay \$1 a year for 99 years. In October 2006, the agreement was amended and a lump sum of \$30,000 was agreed upon for the remaining 75 years of the lease. Therefore, \$400 of rental income was recognized for FY 2007 and the remaining \$29,600 is considered deferred revenue, with \$400 being released every year until 2082. The balance as of May 31, 2008 is \$29,200.



NOTE 13 - TEMPORARILY RESTRICTED ASSET

The land that E A. Hawse Health Center, Inc. is leasing to Hemlock, LLC was acquired as part of a larger tract which includes the location of the community health center. Therefore, a portion of that land is considered a temporarily restricted asset as the land cannot be sold or donated for the remainder of the lease agreement. It has been estimated that the leased land is 14% of the entire tract. The original carrying value of the leased land is \$5,409

E.A. HAWSE HEALTH CENTER, INC.  
 SCHEDULE OF AWARDS  
 FOR THE YEAR ENDED MAY 31, 2008

Federal Grantor/Pass Through Grantor/Program Title	Grant Period	Federal CFDA Number(s)	Program or Award Amount	Grant Receivable, June 1, 2007	Current Year Grant Receipts	Grant Disbursements/Expenditures/Transfers	Grant Receivable / (Refundable Advance) May 31, 2008
<b>Federal</b>							
Department of Health and Human Services Community Health Centers Programs	6/1/07 - 5/31/08	93.224	\$ 647,261	\$ -	\$ 647,261	\$ 647,261	\$ -
<b>Non-Federal</b>							
State of West Virginia							
West Virginia Dept. of Health and Human Resources Bureau for Public Health							
1. Primary Care	7/1/07 - 6/30/08		274,051	-	273,540	273,540	-
2. Oral Health Education	7/1/07 - 6/30/08		4,000	-	-	3,200	3,200
3. Oral Health Education	7/1/06 - 6/30/07		4,000	1,500	4,000	2,500	-
4. Community Based Initiative Program	9/1/07 - 6/30/08		13,900	-	13,900	13,900	-
Sisters of St. Joseph Health and Wellness Foundation School Based Health	1/1/08 - 12/31/08		57,000	-	57,000	57,000	-
American Lung Association of the Mid-Atlantic School Based Health	6/1/07 - 5/31/08		200	-	200	200	-
<b>Total Awards</b>			<u>\$ 1,000,412</u>	<u>\$ 1,500</u>	<u>\$ 995,901</u>	<u>\$ 997,601</u>	<u>\$ 3,200</u>

See Independent Auditors' Report  
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**E.A. HAWSE HEALTH CENTER, INC.**

**SINGLE AUDIT REPORT**

**AS OF MAY 31, 2008 AND FOR THE YEAR THEN ENDED**

FEB - 5 2009

E.A. HAWSE HEALTH CENTER, INC.

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RECEIVED  
FEB - 5 2009



**Huber, Michaels  
& Company**

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

To the Board of Directors  
E.A. Hawse Health Center, Inc.  
Baker, West Virginia

We have audited the financial statements of E. A. Hawse Health Center, Inc. (a nonprofit organization) as of and for the year ended May 31, 2008, and have issued our report thereon dated October 29, 2008. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit 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, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of E. A. Hawse Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of E. A. Hawse Health Center, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cumberland, Maryland  
October 29, 2008

*Huber, Michaels & Company*

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E.A. HAWSE HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended May 31, 2008

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Expenditures
U.S. Department of Health and Human Services:		
Community Health Centers Program*	93 224	\$647,261
TOTAL FEDERAL AWARDS		<u>\$647,261</u>

\* Tested as a major program

See Notes to Schedule of Expenditures of Federal Awards

**E.A. HAWSE HEALTH CENTER, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1 - BASIS OF PRESENTATION

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

NOTE 2 - FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended May 31, 2008.

NOTE 3 - FIXED ASSETS

Purchases of fixed assets from Federal awards are recorded as a Federal expenditure. This is not consistent with Generally Accepted Accounting Principles (GAAP).

(See Independent Auditors' Report on the Schedule of Expenditures of Federal Awards)

**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  
E.A. Hawse Health Center, Inc  
Baker, West Virginia

We have audited the financial statements of E.A. Hawse Health Center, Inc. (a nonprofit organization) as of and for the year ended May 31, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered E.A. Hawse Health Center, Inc.'s internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of E.A. Hawse Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or



detected by the organization's internal control. We consider finding 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 2008-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether E.A. Hawse Health Center, Inc.'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of E.A. Hawse Health Center, Inc. in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Allen, Michaels + Company*

Cumberland, Maryland  
October 29, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
E A. Hawse Health Center, Inc.  
Baker, West Virginia

**Compliance**

We have audited the compliance of E.A. Hawse Health Center, Inc (a non-profit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2008. E.A. Hawse Health Center, Inc's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of E.A. Hawse Health Center, Inc's management. Our responsibility is to express an opinion on E.A. Hawse Health Center, Inc's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about E.A. Hawse Health Center, Inc's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of E.A. Hawse Health Center, Inc's compliance with those requirements.

In our opinion, E.A. Hawse Health Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item FIC-2008-1

**Internal Control Over Compliance**

The management of E.A. Hawse Health Center, Inc is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations,

contracts, and grants applicable to federal programs. In planning and performing our audit, we considered E.A. Hawse Health Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 E.A. Hawse Health Center, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of E.A. Hawse Health Center, Inc. as of and for the year ended May 31, 2008, and have issued our report thereon dated October 29, 2008. Our audit was performed for the purpose of forming and opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

E.A. Hawse Health Center Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. WE did not audit E.A. Hawse Health Center Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cumberland, Maryland  
October 29, 2008

*Allen, Michaels + Company*

**E.A. HAWSE HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended May 31, 2008**

**I. SUMMARY OF AUDITORS' RESULTS**

The Independent Auditors' Report on the financial statements of E. A. Hawse Health Center, Inc. as of and for the year ended May 31, 2008 was an unqualified opinion.

The audit of the financial statements disclosed a significant deficiency in internal control that is considered to be a material weakness.

The audit disclosed no instances of noncompliance which are material to the financial statements of E. A. Hawse Health Center, Inc.

The audit of compliance disclosed no significant deficiencies in internal control over major programs.

The Independent Auditors' Report on compliance with requirements applicable to each major federal program for the year ended May 31, 2008 was an unqualified opinion.

The audit disclosed no findings, which we are required to report under section 510(a) of OMB Circular A-133.

Community Health Centers Program, CFDA # 93.224, was tested as a major program.

The threshold for distinguishing between Type A and Type B programs was \$500,000 expended for the year ended May 31, 2008.

The Organization did not qualify as a low-risk auditee.

**E.A. HAWSE HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended May 31, 2008**

**II FINDINGS AND QUESTIONED COSTS – MAJOR PROGRAM AUDIT**

**A Material Weakness in Internal Control**

**1. 2008-1 Inadequate Design of Internal Control over Financial Reporting**

Criteria: The Organization should have a system of internal controls adequately designed to prepare complete and accurate financial statement disclosures in accordance with generally accepted accounting principles.

Condition: The Organization has not adequately assessed risk over the preparation of financial statement disclosures.

Effect: Material financial statement disclosures could be inaccurate or omitted from the financial statements.

Recommendation: We recommend the Organization design a system of internal controls that properly assess risk over the preparation of financial statement disclosures to ensure they are accurate and complete in accordance with generally accepted accounting principles.

**E.A. HAWSE HEALTH CENTER, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended May 31, 2008**

No prior year audit findings.