

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

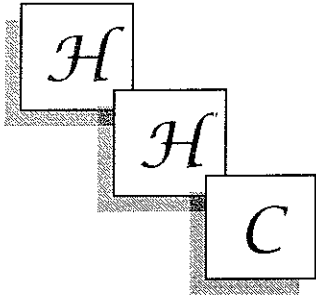
**FINANCIAL REPORT AND  
SINGLE AUDIT REPORTS**

**MAY 31, 2010**

**DHHR - Finance**

**FEB 03 2011**

**Date Received**



*Hawse Health Center*  
*"Making A Difference"*

*P.O. Box 97*  
*Baker, WV 26801*  
*(304) 897-6915*

February 2, 2011

WV DHHR  
Office of Accountability & Mgmt. Reporting  
Division of Compliance and Monitoring  
Capitol Complex, Building 3, Room 550  
Charleston, WV 25305

Dear Sir,

Enclosed please find a copy of our audited financial statement for the fiscal year ended May 31<sup>st</sup>, 2010.

I am submitting these per the requirements of compliance. If you have any questions or if I can be of any assistance, please contact me at any time.

With kind regards,

Sincerely,

Gary T. Johnson  
CEO

GTJ/blt

Enclosure

DHHR - Finance

FEB 03 2011

Date Received

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SCHEDULES OF FEDERAL AND STATE AWARDS

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

We have audited the accompanying statement of financial position of E. A. Hawse Health Center, Inc., a non-profit organization, as of May 31, 2010, and the related statements of activities, changes in net assets, and cash flows for the year 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. The financial statements of E. A. Hawse Health Center, Inc. as of May 31, 2009, were audited by other auditors whose report dated December 18, 2009, expressed an unqualified opinion on those statements.

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, 2010, and the changes in its net assets and its cash flows for the year 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 January 17, 2011, on our consideration of E. A. Hawse Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 performed for the purpose of forming an opinion on the 2010 basic financial statements of E. A. Hawse Health Center, Inc. taken as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of West Virginia, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2010 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.

*Scottman Lee Peltz*

Bridgeport, West Virginia  
January 17, 2011

DHHD - Finance

FEB 03 2011

Date received

**E. A. HAWSE HEALTH CENTER, INC.  
STATEMENTS OF FINANCIAL POSITION**

May 31, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 311,857	\$ 179,711
Patient service and third-party receivables, net	594,021	355,198
Federal and state grants receivable	112,401	15,837
Medicare and Medicaid cost report receivables	49,000	-
Other receivables	-	12,966
Inventories	281,648	82,386
Investment in marketable equity trading security	9,600	9,600
Prepaid expenses and deposits	<u>8,174</u>	<u>12,640</u>
<b>Total current assets</b>	<u><b>1,366,701</b></u>	<u><b>668,338</b></u>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Land	38,920	38,920
Buildings and improvements	2,258,344	2,244,059
Furniture and equipment	<u>1,424,847</u>	<u>1,117,682</u>
	3,722,111	3,400,661
Less accumulated depreciation	<u>1,616,766</u>	<u>1,463,349</u>
	<u><b>2,105,345</b></u>	<u><b>1,937,312</b></u>
<b>Total assets</b>	<u><b>\$ 3,472,046</b></u>	<u><b>\$ 2,605,650</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Notes payable, current portion	\$ 54,118	\$ 24,935
Bank line of credit borrowings (Note 12)	70,604	-
Capital lease obligation, current portion	2,678	2,458
Trade accounts payable	186,268	33,135
Accrued expenses	184,370	103,280
Grants liability	-	37,630
<b>Total current liabilities</b>	<u>498,038</u>	<u>201,438</u>
Notes payable, long-term portion (Note 12)	1,132,037	790,658
Deferred revenue	28,818	28,800
Capital lease obligation, long-term portion (Note 11)	<u>3,589</u>	<u>6,267</u>
<b>Total liabilities</b>	<u><b>1,662,482</b></u>	<u><b>1,027,163</b></u>
<b>NET ASSETS</b>		
Unrestricted	1,687,421	1,535,448
Temporarily restricted	<u>122,143</u>	<u>43,039</u>
<b>Total net assets</b>	<u><b>1,809,564</b></u>	<u><b>1,578,487</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$ 3,472,046</b></u>	<u><b>\$ 2,605,650</b></u>

The Notes to Financial Statements are an integral part of these statements.

**E. A. HAWSE HEALTH CENTER, INC.**  
**STATEMENTS OF ACTIVITIES**

Years Ended May 31, 2010 and 2009

	2010	2009
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>		
<b>Revenues and support</b>		
Net patient service revenues	\$ 4,990,773	\$ 2,682,488
Donated pharmaceuticals	1,040,098	1,023,958
Federal grants	976,618	663,509
State and other grants	395,272	362,908
Net assets released from restrictions	37,630	25,765
Interest income	611	2,311
Other	12,983	42,608
<b>Total revenues and support</b>	<u>7,453,985</u>	<u>4,803,547</u>
<b>Expenses</b>		
Salaries and wages	3,140,701	2,100,981
Donated drugs and supplies	1,040,098	1,023,958
Medical and other supplies	978,829	502,484
Payroll taxes and employee benefits	627,791	405,584
Bad debts	371,972	83,091
Contracted services	400,017	437,434
Repairs and maintenance	139,967	129,174
Rent	53,163	8,021
Depreciation	153,555	131,554
Insurance	13,293	13,288
Utilities and telephone	84,275	57,409
Travel	36,549	23,523
Interest	74,926	57,543
Federal grant for health care and other facilities	134,950	-
Other	51,926	70,907
<b>Total expenses</b>	<u>7,302,012</u>	<u>5,044,951</u>
<b>Change in unrestricted net assets</b>	<u>151,973</u>	<u>(241,404)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Public health grant	116,734	-
Net assets released from restrictions	<u>(37,630)</u>	<u>(25,765)</u>
<b>Change in temporarily restricted net assets</b>	<u>79,104</u>	<u>(25,765)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 231,077</u>	<u>\$ (267,169)</u>

The Notes to Financial Statements are an integral part of these statements

E. A. HAWSE HEALTH CENTER, INC.  
STATEMENTS OF CHANGES IN NET ASSETS

Years Ended May 31, 2010 and 2009

	2010	2009
Balance, beginning	\$ 1,578,487	\$ 1,845,656
Change in net assets	<u>231,077</u>	<u>(267,169)</u>
Balance, ending	<u>\$ 1,809,564</u>	<u>\$ 1,578,487</u>

The Notes to Financial Statements are an integral part of these statements.



**E. A. HAWSE HEALTH CENTER, INC.**  
**STATEMENTS OF CASH FLOWS**

Years Ended May 31, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 231,077	\$ (267,169)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	153,555	131,554
(Increase) decrease in patient and third-party receivables	(238,823)	165,378
(Increase) in federal and state grants receivable	(96,564)	(12,637)
(Increase) in Medicare and Medicaid cost report receivables	(49,000)	-
Decrease in other receivables	12,966	14,969
(Increase) in inventories	(199,262)	-
Decrease in prepaid expenses and deposits	4,466	2,640
Increase (decrease) in trade accounts payable	153,133	(15,693)
Increase (decrease) in accrued expenses	81,090	(16,897)
Increase (decrease) in deferred revenue	18	(400)
(Decrease) in grants liability	<u>(37,630)</u>	<u>(25,765)</u>
Net cash provided by operating activities	<u>15,026</u>	<u>(24,020)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipment acquisitions	<u>(321,588)</u>	<u>(255,516)</u>
Net cash (used in) investing activities	<u>(321,588)</u>	<u>(255,516)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	400,000	69,105
Net proceeds from line of credit borrowings	70,604	-
Payments on capital lease obligations	(2,458)	(17,759)
Payments on long-term debt	<u>(29,438)</u>	<u>(2,418)</u>
Net cash provided by financing activities	<u>438,708</u>	<u>48,928</u>
 Net increase (decrease) in cash and cash equivalents	 132,146	 (230,608)
 Cash and cash equivalents		
Beginning	<u>179,711</u>	<u>410,319</u>
Ending	<u>\$ 311,857</u>	<u>\$ 179,711</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 74,926</u>	<u>\$ 57,444</u>

The Notes to Financial Statements are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF OPERATIONS

E A. Hawse Health Center, Inc. (the Organization or the Center) is a non-profit organization established as a Federally Qualified Health Center (FQHC) for the purpose of providing primary care services to the residents of Hardy County, West Virginia and the surrounding areas. The Organization's revenues are received primarily from patients, governmental grants, and donated pharmaceuticals. The Organization's principal operations are in Baker, West Virginia. Baker is situated in Hardy County, West Virginia.

The Center's Articles of Incorporation established a General Membership consisting of 27 members. The General Membership is responsible for electing the Center's Board of Directors. Under the terms of a bequest which created the Center, 15 individuals of the General Membership are required to be appointed by the Hardy County Committee on Aging, Incorporated. The remaining 12 members come from various civic and social organizations in the area.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Financial Reporting*

These financial statements have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – net assets not subject to donor/grantor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor/grantor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time

Permanently restricted net assets – net assets subject to donor/grantor-imposed stipulations that they be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor/grantor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor/grantor stipulation or by law

#### *Cash and Cash Equivalents*

For purposes of the statements of financial position and cash flows, the Organization considers all highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less when acquired to be cash equivalents. The carrying amount of cash equivalents approximates fair value because of the short maturity of these financial instruments.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Management's 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 dates of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimates affecting the financial statements are the collectability of receivables, depreciation, and revenue recognition.

#### *Receivables*

Receivables are unsecured, and represent the estimated net realizable amounts from patients, third party payers, federal and state grants, and others for services rendered. The Organization utilizes the reserve method for accounting for bad debts, and provides for uncollectible amounts within the allowance for doubtful accounts. Amounts that are deemed uncollectible are charged against the reserve. Management's estimates of allowances for doubtful accounts are based on historical experience and analysis of individual patient and third-party receivables. Accounts are considered delinquent if payment is not received in 90 days. Specific balances are written off at the time that they are determined to be uncollectible. As of May 31, 2010 and 2009, the allowances for uncollectible accounts were \$422,322 and \$63,280, respectively.

#### *Inventories*

Inventories consist of medical and other supplies to be consumed in the treatment of patients and the general operation of the facility. Inventories are stated at cost, based on the first-in, first-out method of valuation.

#### *Property and Equipment*

Property and equipment are stated at cost for purchased items and fair value for contributed items. Assets whose expected useful life is in excess of one year and cost (or fair value) is above a threshold established by the Board of Directors are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, using the American Hospital Association estimated useful lives (5 – 40 years). Normal repairs and maintenance are expensed as incurred. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

#### *Charity Care*

The Organization provides care to patients who meet certain criteria without charge or at amounts less than its established rates under a sliding fee arrangement covered by grant funds. Because the Organization does not pursue collection of these amounts, they are not included in net patient revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Donor Restrictions*

The Organization reports gifts of cash and other assets 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 as unrestricted net assets and reported on the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Organization's temporarily restricted net assets of \$122,143 and \$43,039 at May 31, 2010 and 2009, respectively, were principally to be used to fund future primary care services.

#### *Economic Dependency*

The Organization receives a significant portion of its support from federal and state government grants, Medicare and Medicaid programs, donated pharmaceuticals, and patient revenues. A material reduction in the level of support or nonpayment of fees generated would have a significant impact on the Organization's programs and activities and its ability to continue as a going concern. Patient service revenue is primarily limited to services provided to the residents of Hardy County and the surrounding area. General economic conditions in the area significantly influence the Organization's ability to collect fees for services rendered.

#### *Revenue Recognition*

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers. Revenues are based on encounters performed and medical services provided. As a Federally Qualified Health Center, the Organization receives cost-based reimbursements from the Medicare and Medicaid programs. Grant revenues are primarily recognized on a cost-reimbursement basis.

#### *Income Taxes*

The Organization is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an entity that is not a private foundation under 509(a)(1). The Organization had no unrelated business income during the years ended May 31, 2010 and 2009.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Fair Value*

The carrying amounts reflected in the statements of financial position for cash, accounts receivable, accounts payable and accrued expenses approximate the respective fair values due to the short maturities of those instruments.

#### *Other Items*

Advertising and interest costs are expensed as incurred. There were no advertising costs for the years ended May 31, 2010 and 2009.

The Organization has an investment in the marketable equity security of an entity engaged in banking. The investment is classified as a trading security and is carried at cost (\$9,600) which approximates its fair value.

A liability has been recognized for unpaid, but earned, paid days off due to be subsequently taken by employees.

#### *Reclassifications*

Certain amounts for the year ended May 31, 2009, have been reclassified to conform to the presentation of the May 31, 2010 amounts. The reclassifications have no effect on the change in net assets for the year ended May 31, 2009.

### NOTE 3. THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

A significant portion of net patient service revenue was derived under federal and state third party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third party fiscal intermediaries. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In the opinion of management, any retroactive adjustments, would not be material to the Organization's financial position or results of operations.

### NOTE 4. CASH BALANCES IN EXCESS OF INSURANCE

The Organization maintains accounts in local banks where deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Organization's balances may occasionally exceed the insurance limits; however, management believes the risk relating to the uninsured excess is minimal.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5. MALPRACTICE INSURANCE

The Organization's employees are deemed to be employees of the federal government for the purpose of malpractice liability protection under the Federal Tort Claims Act. Pursuant to Section 224 of the Public Health Services Act, the Federal Tort Claims Act covers alleged negligent medical care during the performance of services for FQHCs when performing covered services at covered facilities.

### NOTE 6. PENSION PLAN

The Organization has established a 401(k) deferred compensation plan for the benefit of eligible employees to defer a portion of their annual compensation. The Organization's Board of Directors determines the matching discretionary contribution to the plan annually. During fiscal years ended May 31, 2010 and 2009, the Organization made no matching contributions to the plan.

### NOTE 7. UNCERTAIN INCOME TAX POSITIONS

Accounting Standards Codification Topic 740-10 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination. On June 1, 2009, the Center adopted the recognition and disclosure provisions of the standard. The adoption of this standard did not have an effect on the Center's financial position or changes in net assets. The Center's federal Return of Organizations Exempt from Income Taxes for tax years ending May 31, 2010, 2009 and 2008 remain subject to examination by the Internal Revenue Service. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

### NOTE 8. PROGRAM AND OTHER EXPENDITURES

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General operating expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization. Expenditures for the years ended May 31, 2010 and 2009, were as follow:

	2010	2009
Administrative and general	\$1,123,377	\$ 531,131
Program services	<u>6,178,635</u>	<u>4,513,820</u>
	<u>\$7,302,012</u>	<u>\$5,044,951</u>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 9. OPERATING LEASES**

On January 1, 2010, the Center began leasing space in Wardensville, West Virginia, under a non-cancelable operating lease agreement through December 31, 2014. Lease expense for the year ended May 31, 2010, was \$2,400. Rental costs are expected to increase \$50 per month each year of the lease. Rental costs are anticipated to be \$5,100, \$5,700, \$6,300, \$6,900 and \$3,600 for each of the next five fiscal years respectively.

In fiscal 2010, the Company began leasing office space in Petersburg, West Virginia on a month-to-month basis. Rental expense under this agreement was \$34,875 for the year ended May 31, 2010.

**NOTE 10. LESSOR LEASING ARRANGEMENT/RESTRICTED LAND**

E.A. Hawse Health Center has a lease agreement with Hemlock, LLC. This lease is for land that the Center owns, but where a nursing home is located. The original lease began on August 9, 1983, and stated that the lessee was to pay \$1 per 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. Every year, \$400 will be released from deferred revenue until 2028. The deferred revenue balance as of May 31, 2010 and 2009 was \$28,400 and \$28,800, respectively.

The land that the Center is leasing to Hemlock, LLC was acquired as part of a larger tract which includes the location of the Center. A portion of that land is considered a temporarily restricted net 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.

**NOTE 11. OBLIGATION UNDER CAPITAL LEASE**

As of May 31, 2010 and 2009, the Organization's capital lease obligation was:

	2010	2009
Capital lease payable in monthly installments of \$265, including interest at 9.368%, maturing August 2012, collateralized by a copier with a May 31, 2010 unamortized cost of \$6,345	\$ 6,267	\$ 8,725
Less current portion	<u>2,678</u>	<u>2,458</u>
	<u>\$ 3,589</u>	<u>\$ 6,267</u>

As of May 31, 2010, future lease payments under this capital lease are as follows:

<u>Year Ending May 31:</u>	
2011	\$ 3,188
2012	3,118
2013	<u>1,133</u>
	7,439
Less imputed interest	<u>(1,172)</u>
	<u>\$ 6,267</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 12. NOTES PAYABLE AND BANK LINE OF CREDIT

	2010	2009
Capon Valley Bank; payable in monthly installments of \$1,974 including interest at 6.25%, secured by 3rd deed of trust and clinic buildings, maturing on September 4, 2028	\$ 258,150	\$ 265,313
Capon Valley Bank; payable in monthly installments of \$4,094 including interest at 6.25%, secured by 2nd deed of trust and clinic buildings and land, maturing on September 4, 2028	535,422	550,280
Capon Valley Bank; payable in monthly installments of \$4,490 including interest at 6.25%, secured by 4th deed of trust and clinic buildings and land, maturing on February 22, 2020	<u>392,583</u>	<u>-</u>
	1,186,155	815,593
Less current portion	<u>54,118</u>	<u>24,935</u>
	<u>\$ 1,132,037</u>	<u>\$ 790,658</u>

As of May 31, 2010, future payments on notes payable for the years ending are as follows:

2011	\$ 54,118
2012	58,840
2013	59,864
2014	65,233
2015	69,431
Thereafter	<u>878,669</u>
	<u>\$ 1,186,155</u>

The Organization has a line of credit with Capon Valley bank in the amount of \$250,000, with interest payable at 6.25%. At May 31, 2010, the Organization had \$70,604 outstanding under this line of credit. This line is secured by land and the E. A. Hawse Health Center building.

### NOTE 13. SUBSEQUENT EVENTS

Accounting Standards require management to search for events that occur after the balance sheet date but before financial statements are issued. The standard is effective for the Organization beginning with the fiscal year ended May 31, 2010. Management has evaluated events subsequent from May 31, 2010 through January 17, 2011, which is the date this report is available to be issued. There has been no material event noted during this period that would either impact the results reflected in this report or the Organization's results going forward.



E. A. HAWSE HEALTH CENTER, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended May 31, 2010

Federal Grantor	Federal CFDA/ Grant Number	Federal Expenditures
<b>Direct Awards:</b>		
US Department of Health and Human Services-Health Resources & Services Administration-		
Community Health Centers Program	93.224	\$ 678,286
Health Care and Other Facilities	93.887	134,950
ARRA - Increase Services to Health Centers	93.703	88,800
ARRA - Capital Improvement Program	93.703	<u>74,582</u>
Subtotal of CFDA # 93.703		<u>163,382</u>
<i>Total Direct Awards</i>		<u>\$ 976,618</u>

**Note A - Basis of Presentation**

The schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented may differ from the amounts presented in , or used in the preparation of the basic financial statements

E. A. HAWSE HEALTH CENTER, INC.  
SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended May 31, 2010

State Grantor	Grant Number	Award Amount	2009 Receivable (Deferred)	Disbursements/ Expenditures	2010 Receivable (Deferred)
Department of Health and Human Human Resources					
Uncompensated Care Grant					
(07/01/09-06/30/10)	G100082	\$ 308,670	\$ -	\$ 271,269	\$ 37,401
(07/1/08 - 06/30/09)	G090047	291,918	-	33,121	-
			<u>\$ -</u>	<u>\$ 304,390</u>	<u>\$ 37,401</u>
Total expenditures of state awards			<u>\$ -</u>	<u>\$ 304,390</u>	<u>\$ 37,401</u>

**Note A - Basis of Presentation**

The schedule of expenditures of state awards includes the state grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented may differ from the amounts presented in, or used in the preparation of the basic financial statements.



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  
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, 2010, and have issued our report thereon dated January 17, 2011. 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 for 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (Item 2010-1).

**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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of E. A. Hawse Health Center, Inc. in a separate letter dated January 17, 2011.

This report is intended solely for the information and use of the board of directors, management and governmental awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Joethman Rice P. A.*

Bridgeport, West Virginia  
January 17, 2011

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FEB 03 2011

Date Received



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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. 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, 2010. 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 its major federal programs is the responsibility of the Organization'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, 2010.

### 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 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 the 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, 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in 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 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 significant 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a material weakness.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Scottman Lee Polk*

Bridgeport, West Virginia  
January 17, 2011

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FEB 03 2011

Date Received:

E. A. HAWSE HEALTH CENTER, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 May 31, 2010

**Section I -- Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:

Unqualified opinion

Internal control over financial reporting:

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

X  Yes      No  
     Yes  X  None  
 Reported

Noncompliance material to financial  
 statements noted?

    Yes  X  No

**Federal Awards**

Internal control over major programs:

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

X  Yes      No  
     Yes  X  None  
 Reported

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

Unqualified

Any audit findings disclosed that are  
 required to be reported in accordance  
 with Section 510 (a) of Circular A-133?

X  Yes      No

Identification of Major Programs:

CFDA Numbers

Name of Federal Program

93.224  
 93.703  
 93.703

Community Health Centers Program  
 ARRA - Increased Services to Health Centers  
 ARRA - Capital Improvement Projects

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

\$300,000

Auditee qualified as low-risk auditee?

    Yes  X  No

E. A. HAWSE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
May 31, 2010

**Section II – Financial Statement Audit**

**2010-1 Separation of Duties**

**Condition:** Due to the small size of the Organization, several processes related to the disbursement of funds, including record keeping, custody of assets and approval for transactions were conducted by one employee of the Organization. The person responsible for general ledger transactions was also responsible for writing checks, reconciling the bank statements and had access to blank check stock.

**Criteria:** Generally, the internal control structure of an organization is designed to separate record keeping, approval of transactions and custody of assets.

**Effect:** If the individual responsible for these activities was inclined to commit fraud at the Organization, the internal control structure may not locate this fraud, due to the lack of segregation of duties in the accounting functions.

**Questioned Costs:** There were no questioned costs associated with this finding.

**Recommendations:** In fiscal 2010, the Organization terminated its Chief Financial Officer (CFO). During the period in which there was not a CFO, one individual was responsible for all aspects of cash distribution (except for signing of the disbursements), and record keeping, with oversight by the Chief Executive Officer. The search for a CFO at the Organization took an extended period of time and in the end no CFO was employed. Subsequent to year end, the Company remediated the situation by hiring additional personnel in the accounting department to assist with the separation of duties.

**Views of Responsible Officials and Planned Corrective Actions:** The Center agrees that due to the need to replace the CFO the accountant was required to perform conflicting duties during fiscal year 2010. This situation was remediated subsequent to year end with the employment of additional staff in the accounting department.

**Section III – Major Federal Awards Programs Audit**

Department of Health & Human Services – Health Resources and Services Administration - Community Health Centers Program (CFDA 93.224); ARRA – Increased Services to Health Centers (CFDA 93.703); ARRA – Capital Improvements Projects (CFDA 93.703).

**2010-1 Separation of Duties – Material Deficiency** – The material internal control deficiency described above also applies to these major programs.



E. A. HAWSE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
May 31, 2010

**Section V – Summary Schedule of Prior Audit Findings**

**2009-1 Inadequate Design of Internal Control over Financial Reporting**

**Finding:** 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.

**Status of Corrective Action:** Corrected subsequent to May 31, 2010 - E. A. Hawse Health Center, Inc. has restructured its Finance Department and has entered into a contract with an independent accounting firm to provide assistance with accounting functions to include: consultation on routine questions regarding certain transactions and their proper entry; annual review and adjustments of transactions affecting the general ledger; preparation of audit ready year-end financial statements.

**2009-2 Inadequate Design of Internal Control over Payroll Activities**

**Finding:** The Organization should have a system of internal controls designed that has an adequate level of segregation of duties over the payroll functions. The CFO of the Organization was able to adjust her vacation and sick time accruals and pay herself extra hours that she did not earn.

**Status of Corrective Action:** In fiscal 2010, the Organization discovered the fraud through an internal investigation and terminated the employee. Additional controls have been implemented to prevent unauthorized vacation and sick time accruals. The situation appears to have been corrected and no additional instances of sick or vacation time abnormalities were noted by management in fiscal 2010 and subsequently.

**2009-3 Noncompliance Regarding Federal Poverty Guidelines**

**Finding:** The Health Center Cluster grant requires the Organization to base its sliding fee scale billings on Federal Poverty Guidelines.

**Status of Corrective Action:** In fiscal 2010, the Organization updated its Sliding Fees Scale to include the most recent federal poverty guidelines when they became available



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

In planning and performing our audit of the financial statements of E.A. Hawse Health Center as of and for the year ended May 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered E.A. Hawse Health Center's internal control over financial reporting (internal control) as a basis for 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, board of directors, HRSA and the West Virginia Division of Primary Care and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Toothman Rice, PLLC

Bridgeport, West Virginia  
January 17, 2011

DHHR - Finance

FEB 03 2011

Date Received