

# *Hawse Health Center*

*"Making A Difference"*

*P.O. Box 97*

*Baker, WV 26801*

*(304) 897-5915*

---

***Financial Report  
And  
Single Audit Reports  
May 31, 2013 and 2012***

---

DHHR - Finance

MAY 27 2014

Date Received

## CONTENTS

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SCHEDULES OF FEDERAL AND STATE AWARDS	I
FINANCIAL STATEMENTS	
Statements of Financial Position	1 of 10
Statements of Activities	2 of 10
Statements of Changes in Net Assets	3 of 10
Statements of Cash Flows	4 of 10
Notes to Financial Statements	5-10 of 10
Schedule of Expenditures of Federal Awards	1 of 1
Schedule of Expenditures of State Awards	1 of 1
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 <i>GOVERNMENT AUDITING STANDARDS</i>	II
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	III
Schedule of Findings and Questioned Costs	1-3 of 3



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

**Report on the Financial Statements**

We have audited the accompanying financial statements of E. A. Hawse Health Center, Inc. which comprise the statements of financial position as of May 31, 2013 and 2012, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of E. A. Hawse Health Center, Inc. as of May 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2013 schedules of expenditures of federal and state awards, as required by the Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of West Virginia, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our 2013 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* in considering E. A. Hawse Health Center, Inc.'s internal control over financial reporting and compliance.

*Arnett Foster Toothman PLLC*

Bridgeport, WV  
February 17, 2014

DHHR - Finance

MAY 27 2014

Date Received



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

May 31, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 594,858	\$ 600,976
Patient service and third-party receivables, net	963,622	962,078
Grants receivable	37,037	37,080
Medicare and Medicaid cost report receivables	41,000	24,000
Inventories	255,944	315,830
Prepaid expenses and deposits	<u>52,378</u>	<u>48,626</u>
Total current assets	<u>1,944,839</u>	<u>1,988,590</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Land	38,920	38,920
Buildings and improvements	2,339,751	2,339,751
Furniture and equipment	<u>1,745,820</u>	<u>1,742,315</u>
	4,124,491	4,120,986
Less accumulated depreciation	<u>2,193,825</u>	<u>1,984,057</u>
	<u>1,930,666</u>	<u>2,136,929</u>
 Total assets	 <u>\$ 3,875,505</u>	 <u>\$ 4,125,519</u>
<b>LIABILITIES AND NET ASSETS</b>		
Notes payable, current portion	\$ 65,233	\$ 59,864
Capital lease obligation, current portion	-	785
Trade accounts payable	307,958	139,345
Accrued expenses	<u>322,173</u>	<u>310,120</u>
Total current liabilities	695,364	510,114
Notes payable, long-term portion	946,630	1,013,343
Deferred revenue	<u>27,200</u>	<u>27,600</u>
Total liabilities	<u>1,669,194</u>	<u>1,551,057</u>
<b>NET ASSETS</b>		
Unrestricted	2,163,865	2,531,973
Temporarily restricted	<u>42,446</u>	<u>42,489</u>
Total net assets	<u>2,206,311</u>	<u>2,574,462</u>
 Total liabilities and net assets	 <u>\$ 3,875,505</u>	 <u>\$ 4,125,519</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, 2013 and 2012

	2013	2012
Unrestricted revenues and support		
Patient service revenues, net of contractual allowances	\$ 6,185,477	\$ 7,792,707
Less bad debts	<u>11,246</u>	<u>74,340</u>
Net patient service revenues	6,174,231	7,718,367
Donated pharmaceuticals	584,101	649,272
Federal grants	822,605	833,880
State grants	257,721	257,809
Net assets released from restrictions	37,080	66,066
Other	<u>180,689</u>	<u>(257)</u>
Total unrestricted revenues and support	<u>8,056,427</u>	<u>9,525,137</u>
Unrestricted expenses		
Salaries and wages	3,878,802	3,913,621
Donated drugs and supplies	584,101	649,272
Medical and other supplies	1,914,756	2,333,348
Payroll taxes and employee benefits	566,050	860,842
Contracted services	514,343	157,792
Professional services	38,149	36,536
Repairs and maintenance	200,415	162,159
Rent	152,625	114,508
Depreciation	209,768	189,189
Insurance	18,870	16,112
Utilities and telephone	141,254	123,607
Travel and education	34,428	43,447
Interest	76,995	70,237
Other	<u>93,979</u>	<u>149,433</u>
Total unrestricted expenses	<u>8,424,535</u>	<u>8,820,103</u>
Change in unrestricted net assets	<u>\$ (368,108)</u>	<u>\$ 705,034</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, 2013 and 2012

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
Balance May 31, 2011	\$ 1,826,939	\$ 71,475	\$ 1,898,414
Restricted grants	-	37,080	37,080
Net assets released from restrictions	-	(66,066)	(66,066)
Change in unrestricted net assets	<u>705,034</u>	<u>-</u>	<u>705,034</u>
Changes in net assets	<u>705,034</u>	<u>(28,986)</u>	<u>676,048</u>
Balance May 31, 2012	2,531,973	42,489	2,574,462
Restricted grants	-	37,037	37,037
Net assets released from restrictions	-	(37,080)	(37,080)
Change in unrestricted net assets	<u>(368,108)</u>	<u>-</u>	<u>(368,108)</u>
Changes in net assets	<u>(368,108)</u>	<u>(43)</u>	<u>(368,151)</u>
Balance May 31, 2013	<u>\$ 2,163,865</u>	<u>\$ 42,446</u>	<u>\$ 2,206,311</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, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (368,151)	\$ 676,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	209,768	189,189
(Increase) decrease in:		
Patient and third-party receivables	(1,544)	(161,860)
Federal and state grants receivable	43	(8,263)
Medicare and Medicaid cost report receivables	(17,000)	6,400
Inventories	59,886	(2,011)
Prepaid expenses and deposits	(3,752)	(41,152)
Increase (decrease) in:		
Trade accounts payable	168,613	(317,260)
Accrued expenses	12,053	(188,775)
Deferred revenue	(400)	(400)
Net cash provided by operating activities	<u>59,516</u>	<u>151,916</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipment acquisitions	<u>(3,505)</u>	<u>(5,874)</u>
Net cash (used in) investing activities	<u>(3,505)</u>	<u>(5,874)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from line of credit borrowings	-	60,356
Payments on capital lease obligations	(785)	(2,804)
Payments on long-term debt	<u>(61,344)</u>	<u>(196,473)</u>
Net cash (used in) financing activities	<u>(62,129)</u>	<u>(138,921)</u>
 Net (decrease) increase in cash and cash equivalents	 (6,118)	 7,121
Cash and cash equivalents, beginning	<u>600,976</u>	<u>593,855</u>
Cash and cash equivalents, ending	<u>\$ 594,858</u>	<u>\$ 600,976</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 76,995</u>	<u>\$ 70,237</u>

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

## NOTES TO FINANCIAL STATEMENTS

---

### 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, 2013 and 2012 the allowances for uncollectible accounts were \$430,311 and \$635,274, respectively. Receivables associated with insurance companies and self pay patients (including patients with no insurance and deductibles and copayments for patients with insurance) the Organization records a provision for bad debts in the period of service based on its past experience, the allowance is 1.5% of charges.

#### *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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

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

#### *Charity Care*

The Company 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. The criteria for charity care consider family income, liquid assets and family worth as well as other subjective items. Because the Company does not pursue collection of these amounts, they are not included in net patient revenues.

The net cost of charity care provided was approximately \$ 468,025 and \$452,558 for the years ended May 31, 2013 and 2012, respectively. The total cost estimate is based on the estimated charity revenue of each charity patient divided by the total revenues for all patients, multiplied by the total costs for the clinic. The net cost of charity care is determined by the total charity care cost less any patient-related revenue due to sliding-scale payments or other patient-specific sources, which were estimated to be \$241,285 and \$233,311 for the years ended May 31, 2013 and 2012, respectively.

#### *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 \$42,446 and \$42,489 at May 31, 2013 and 2012, respectively, were principally to be used to fund future primary care services.

#### *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.

#### *Compensated Absences*

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

#### *Reclassifications*

Certain revenues and expenses for the year ended May 31, 2012 have been reclassified to conform with the current year presentation. The reclassifications had no effect on the change in net assets as of May 31, 2012.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### **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.

### **NOTE 5. 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, 2013 and 2012, the Organization made no matching contributions to the plan.

### **NOTE 6. UNCERTAIN INCOME TAX POSITIONS**

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, 2013 and 2012.

Accounting Standards prescribe 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. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions. The Center's federal Return of Organizations Exempt from Income Taxes for tax years ending May 31, 2013 (unfiled) and 2012, 2011 and 2010 (filed) remain subject to examination by the Internal Revenue Service.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7. 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 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, 2013 and 2012, were as follow:

	2013	2012
Administrative and general	\$ 1,464,327	\$ 1,405,089
Program services	<u>6,960,208</u>	<u>7,415,014</u>
	<u>\$ 8,424,535</u>	<u>\$ 8,820,103</u>

### NOTE 9. NOTES PAYABLE

	2013	2012
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	\$ 233,196	\$ 242,004
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	483,665	501,935
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>295,002</u>	<u>329,268</u>
	1,011,863	1,073,207
Less current portion	<u>65,233</u>	<u>59,864</u>
	<u>\$ 946,630</u>	<u>\$ 1,013,343</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

### NOTE 9. NOTES PAYABLE (Continued)

As of May 31, 2013, future payments on notes payable for the years ending May 31 are as follows:

2014	\$ 65,233
2015	69,431
2016	73,754
2017	78,641
2018	82,885
Thereafter	<u>641,919</u>
	<u>\$ 1,011,863</u>

### NOTE 10. BANK LINE OF CREDIT

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, 2013 and 2012, the Organization had \$-0- and \$-0-, respectively, outstanding under this line of credit. This line is secured by land and the E. A. Hawse Health Center building.

### NOTE 11. LESSOR LEASING ARRANGEMENT/RESTRICTED LAND

E. A. Hawse Health Center, Inc. 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, 2013 and 2012 was \$27,200 and \$27,600, 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 13. SUBSEQUENT EVENTS

Accounting Standards require management to search for events that occur after the balance sheet date but before financial statements are issued. Management has evaluated events subsequent from May 31, 2013 through February 17, 2014, 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, 2013

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	\$ 457,303
Affordable Care Act - Grants for New and Expanded Services under the Health Center Program	93.527	<u>365,302</u>
Community Health Centers Program Cluster		<u>\$ 822,605</u>
 Total Federal Funding		 <u>\$ 822,605</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.

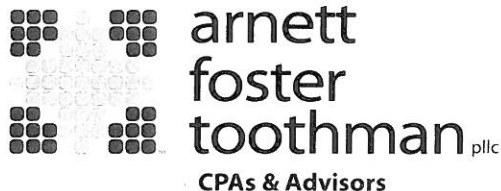
E. A. HAWSE HEALTH CENTER, INC.  
SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended May 31, 2013

State Grantor	Grant Number	Award Amount	Receivable (Deferred)	Expenditures	Receivable (Deferred)
Department of Health and Human Human Resources					
Uncompensated Care Grant					
(07/01/12 - 06/30/13)	G130042	\$ 294,758	\$ -	\$ 257,721	\$ (37,037)
(07/01/11 - 06/30/12)	G120185	\$ 294,889	<u>(37,080)</u>	<u>37,080</u>	<u>-</u>
Total expenditures of state awards			<u>\$ (37,080)</u>	<u>\$ 294,801</u>	<u>\$ (37,037)</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.  
Elizabeth, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of E. A. Hawse Health Center, Inc. (a nonprofit organization) which comprise the statement of financial position as of May 31, 2013, and the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2014.

**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 (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of E. A. Hawse Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2013-001.

## **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*.

### **E. A. Hawse Health Center, Inc.'s Response to Findings**

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. E. A. Hawse Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arnett Foster Tothman PLLC*

Bridgeport, West Virginia  
February 17, 2014

DHHR - Finance

MAY 27 2014

Date Received



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

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

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

We have audited E. A. Hawse Health Center, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on E. A. Hawse Health Center, Inc.'s major federal programs for the year ended May 31, 2013. 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.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for E. A. Hawse Health Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards 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 on compliance with each major federal program. However, our audit does not provide a legal determination of E. A. Hawse Health Center, Inc.'s compliance.

**Opinion on Major Federal Programs**

In our opinion, E. A. Hawse Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended May 31, 2013.



## Report on Internal Control Over Compliance

Management of E. A. Hawse Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered E. A. Hawse Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs 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.

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

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Arnett Foster Toothman PLLC*

Bridgeport, West Virginia  
February 17, 2014

DHHR - Finance

MAY 27 2014

Date Received

E. A. HAWSE HEALTH CENTER, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 May 31, 2013

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Unqualified Opinion

Internal control over financial reporting:  
 Material weakness(es) identified?  X  Yes      No

Significant deficiency(ies) identified  
 that are not considered to be  
 material weaknesses?      Yes  X  None  
Reported

Noncompliance material to financial  
 statements noted?      Yes  X  No

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified?  X  Yes      No

Significant deficiency(ies) identified  
 that are not considered to be  
 material weaknesses?      Yes  X  None  
Reported

Type of auditors’ report issued on  
 compliance for major programs: Unqualified Opinion

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	Community Health Centers Program
93.527	Affordable Care Act - Grants for New and Expanded Services Under the Health Center Program

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, 2013

**Section II – Financial Statement Audit**

**2013-001 Reconciliation of Subsidiary Ledgers to General Ledger - Material Deficiency**

**Condition:** The Organization struggles with reconciling the subsidiary general ledgers to the general ledger due to continuing staffing problems. This situation initially developed during the 2011 fiscal year and although significant improvements have been made in the past two years, not all of the necessary reconciliations are being completed in a timely manner. The Organization did produce accurate Statements of Activities on a monthly basis with revenue and expenses derived from its various management information systems but various monthly totals remained unreconciled with the Organization's general ledger system. This resulted in the Organization's computerized accounting system being inaccurate and unreconciled for a portion of fiscal 2013.

**Criteria:** The internal control structure of an organization is designed to allow for the proper processing and recording of transactions in the event one or more employees are unable to conduct their duties. Frequently, positions are cross trained in order to better enable an entity to withstand the temporary or permanent loss of an employee or position.

**Effect:** The Organization was not able to properly record transactions during fiscal 2013 until the situation was identified, a replacement was located and the replacement individual was properly trained to conduct the activities necessary in the accounting department.

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

**Recommendations:** The Organization should reconcile all subsidiary books and records and agree them to the general ledger on a monthly basis in order to prevent future occurrences similar to this situation. Further, the books and records should be tested monthly to ensure that all transactions are being recorded correctly and timely in the accounting records.

**Views of Responsible Officials and Planned Corrective Actions:** The Center agrees that the reliance placed on this individual, although warranted, did not meet Organizational expectations. Additionally, due to the back log, the Organization was unable to correct all of the errors prior to the fiscal 2013 year end. The Organization has terminated this individual Chief Operating Officer (COO) who was overseeing and operating the Organization and is searching for a new COO. This situation is being remedied subsequent to fiscal 2013 year end with these changes.

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

Department of Health & Human Services – Health Resources and Services Administration -  
Community Health Centers Program Cluster (CFDA 93.224 and 93.527)

**2012-001 Reconciliation of Subsidiary Ledgers to General Ledger – Material Deficiency**

See above.

E. A. HAWSE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
May 31, 2013

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

**2012-001 Separation of Duties**

**Condition:** The individual responsible for general ledger transactions developed a substance abuse problem during fiscal 2011. This situation was not fully realized for a few months. During this time the reconciliations for many subsidiary ledgers and other source documents were not properly recorded or processed correctly in the accounting department.

**Criteria:** The internal control structure of an organization is designed to allow for the proper processing and recording of transactions in the event one or more employees are unable to conduct their duties. Frequently, positions are cross trained in order to better enable an entity to withstand the temporary or permanent loss of an employee or position.

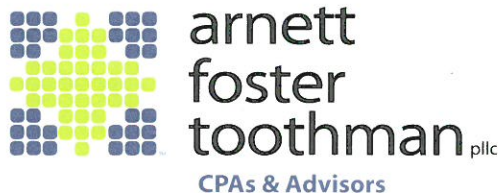
**Effect:** The Organization was not able to properly record transactions during the year until the situation was identified, a replacement was located and the replacement individual was properly trained to conduct the activities necessary in the accounting department.

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

**Recommendations:** The Organization should seek out qualified applicants to monitor the ongoing activities of the accounting department in order to prevent future occurrences similar to this situation.

**Status of Corrective Action:** The Center agrees that too much reliance was placed on this individual. Additionally, due to some cover-up stories, the Organization did not notice timely that the individual had ceased conducting their duties until a few months had passed. The Organization has replaced this individual with a Chief Financial Officer (CFO) in overseeing and operating the Organization. The Organization has substantially corrected the accounts receivable and accounts payable subsidiary ledgers, additionally cash and other major areas are now being reconciled on a regular basis.





February 17, 2014

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

This letter is to inform the Board of Directors of E. A. Hawse Health Center, Inc. about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and we can comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

#### **The Respective Responsibilities of the Auditor and Management**

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated July 9, 2013. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

#### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated July 9, 2013 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

#### **Significant Accounting Practices, Including Policies, Estimates and Disclosures**

##### **Audit Adjustments**

Management corrected the misstatements that were identified as a result of our audit procedures, a copy of these adjustments is attached to this letter.

##### **Uncorrected Misstatements**

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

##### **Consultation with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

##### **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in performing our audit.



## **Management Representations**

Attached is a copy of the management representation letter.

## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to E. A. Hawse Health Center, Inc.

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

*Arnett Foster Toothman PLLC*

Bridgeport, West Virginia

E. A. HAWSE HEALTH CENTER, INC.

Year End: May 31, 2013  
 Adjusting Journal Entries  
 Date: 6/1/2012 To 5/31/2013

Prepared by	1st Review	2nd Review
ESTE 1/22/2014	KW 1/30/2014	

0804

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							(6,249,493.18)		
1	5/31/2013	CV CHECKING	1000-000		32,123.41				
1	5/31/2013	CV CHECKING	1000-000		7,109.22				
1	5/31/2013	CV CHECKING	1000-000		161,294.74				
1	5/31/2013	CV CHECKING	1000-000			30,901.63			
1	5/31/2013	CV CHECKING	1000-000			33,683.05			
1	5/31/2013	OPERATIONAL RESERVE	1001-000			161,294.74			
1	5/31/2013	PHARMACY	1002-000		30,901.63				
1	5/31/2013	TRANS-VISTA DIRECT DEPOSIT	1006-000		33,683.05				
1	5/31/2013	STATE ACCOUNT	1009-000			7,109.22			
1	5/31/2013	CREDIT CARD ACCOUNT	1011-000			32,123.41			
		to adjust Cash Balances							
					265,112.05	265,112.05	(6,249,493.18)	0.00	
2	5/31/2013	ACCOUNTS PAYABLE	2000-000	PR		269,858.74			
2	5/31/2013	FEDERAL INCOME TAX W/H	2100-000	PR		239,720.18			
2	5/31/2013	FICA W/H	2101-000	PR	490,878.51				
2	5/31/2013	WV STATE INCOME TAX W/H	2104-000	PR	17,597.00				
2	5/31/2013	WV SUTA	2105-000	PR	22,993.36				
2	5/31/2013	PR TAX-EMPLOYERS FICA	6300-000	PR		268,755.33			
2	5/31/2013	PR TAX-EMPLOYERS FICA	6300-000	PR	268,755.33				
2	5/31/2013	PR TAX-STATE UNEMPLOYMENT	6310-000	PR		22,993.36			
2	5/31/2013	PR TAX-STATE UNEMPLOYMENT	6310-000	PR	1,103.41				
		To adjust accruals for payroll taxes							
					801,327.61	801,327.61	(6,227,603.23)	21,889.95	
3	5/31/2013	NURSING HOME LAND LEASE	2660-000		400.00				
3	5/31/2013	RENT-MISCELLANEOUS	4403-000			400.00			
		To record revenue earned							
					400.00	400.00	(6,227,203.23)	400.00	
4	5/31/2013	RETAINED EARNINGS	3000-000	NET ASSETS		964.04			
4	5/31/2013	Out of Balance	9999-999	NET ASSETS	964.04				
		To adjust for minor variance							
					964.04	964.04	(6,228,167.27)	(964.04)	
5	5/31/2013	ACCRUED SALARIES	2402-000	ACC PR		47,418.51			
5	5/31/2013	PR TAX-EMPLOYERS FICA	6300-000	ACC PR					
5	5/31/2013	PR-VACATION	6440-000	ACC PR	47,418.51				
		To adjust accrued payroll to client estimate							
					47,418.51	47,418.51	(6,275,585.78)	(47,418.51)	
6	5/31/2013	MORTGAGE-2004 BLDG	2650-000		827.02				
6	5/31/2013	MORTGAGE-PHARMACY	2652-000		520.36				
6	5/31/2013	INTEREST MORTGAGE 2004 BLDG	5810-000			827.02			
6	5/31/2013	MORTGAGE INTEREST PHARMAC	5812-000			520.36			
		to adjust debt							
					1,347.38	1,347.38	(6,274,238.40)	1,347.38	
7	5/31/2013	2004 ADDITION/BLDG	1800-010			827.02			
7	5/31/2013	MEDICAL EQUIPMENT	1801-000			27,780.24			
7	5/31/2013	ACCUM DEPR BUILDING	1900-000			2,292.35			
7	5/31/2013	ACCUM DEPREC 2004 BLDG	1900-010			49,472.50			
7	5/31/2013	ACCUM DEPREC 2007 BLDG	1900-011			18,385.86			
7	5/31/2013	ACCUM DEPR MEDICAL EQUIP	1901-000			48,372.47			

E. A. HAWSE HEALTH CENTER, INC.

Year End: May 31, 2013

Adjusting Journal Entries

Date: 6/1/2012 To 5/31/2013

Prepared by	1st Review	2nd Review
KJE 1/22/2014	KW 1/30/2014	

0804-1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
7	5/31/2013	ACCUM DEPR DENTAL EQUIP	1902-000			35,663.13			
7	5/31/2013	ACCUM DEPR OFFICE EQUIP	1903-000			13,482.04			
7	5/31/2013	ACCUM DEPR OTHER ASSETS	1907-000			4,500.00			
7	5/31/2013	ACCUM DEPR PHARMACY	1910-000			29,051.83			
7	5/31/2013	ACCUM DEPR SOFTWARE	1913-000			8,548.00			
7	5/31/2013	ACCOUNTS PAYABLE	2000-000		27,780.24				
7	5/31/2013	DEPREC-BUILDING	5500-000		20,252.35				
7	5/31/2013	AMORTIZATION LOAN FEES	5500-009		31,512.50				
7	5/31/2013	DEPREC 2004 BUILDING	5500-010		18,385.86				
7	5/31/2013	DEPREC 2007 BUILDING	5500-011		29,051.83				
7	5/31/2013	DEPREC PHARMACY	5500-020		35,663.13				
7	5/31/2013	DEPREC-DENTAL EQUIP	5510-000			732.75			
7	5/31/2013	DEPREC-DENTAL EQUIP	5510-000		48,372.47				
7	5/31/2013	DEPREC-MEDICAL EQUIPMENT	5520-000		13,482.04				
7	5/31/2013	DEPREC-OFFICE EQUIPMENT	5540-000		8,548.00				
7	5/31/2013	DEPREC-SOFTWARE	5545-000		4,500.00				
7	5/31/2013	EQUIPMENT MINOR	5590-000		1,559.77				
		to adjust fixed assets							
					239,108.19	239,108.19	(6,484,833.60)	(210,595.20)	
8	5/31/2013	N/P - GIM	2500-000		784.54				
8	5/31/2013	SUPPLIES	6800-000			784.54			
		to zero out capital lease							
					784.54	784.54	(6,484,049.06)	784.54	
9	5/31/2013	CV CHECKING	1000-000			487,711.98			
9	5/31/2013	MEDICAL INCOME	4203-000		487,711.98				
		to adjust operating cash account							
					487,711.98	487,711.98	(6,971,761.04)	(487,711.98)	
10	5/31/2013	ACCOUNTS RECEIVABLE	1200-000		3,270,353.00				
10	5/31/2013	ACCOUNTS RECEIVABLE	1200-000		271,327.24				
10	5/31/2013	ACCOUNTS RECEIVABLE PHARM	1200-130		3,540,422.00				
10	5/31/2013	ACCOUNTS RECEIVABLE PHARM	1200-130			584,101.00			
10	5/31/2013	ACCOUNTS RECEIVABLE PHARM	1200-130			112,745.61			
10	5/31/2013	RESERVE FOR BAD DEBT:PHAR	1300-130			2,500.00			
10	5/31/2013	WV STATE GRANT	4100-000			51,863.00			
10	5/31/2013	MEDICAL INCOME	4203-000			1,455,545.00			
10	5/31/2013	MEDICAL INCOME	4203-000			384,306.00			
10	5/31/2013	MEDICAL INCOME	4203-000			1,023,538.00			
10	5/31/2013	MEDICAL INCOME	4203-000			680,592.00			
10	5/31/2013	DENTAL INCOME	4204-000			1,030,202.00			
10	5/31/2013	DENTAL INCOME	4204-000			255,169.00			
10	5/31/2013	PHARMACY INCOME	4205-130			3,540,422.00			
10	5/31/2013	PHARMACY INCOME	4205-130		584,101.00				
10	5/31/2013	BEHAVIOR HEALTH	4210-000			213,506.00			
10	5/31/2013	ADJ-PRIVATE INSURANCE	4211-000		1,772,505.00				
10	5/31/2013	ADJ-PRIVATE INSURANCE	4211-000		115,245.61				
10	5/31/2013	ADJ-PRIVATE INSURANCE	4211-000			219,464.24			
10	5/31/2013	DONATED PHARMACEUTICALS	4502-000			584,101.00			
10	5/31/2013	DONATED PHARMACEUTICALS	6802-000		584,101.00				
		To record income							
					10,138,054.85	10,138,054.85	(589,005.41)	6,382,755.63	
11	5/31/2013	HIGHLAND BANKCORP	1050-000		6,633.00				
11	5/31/2013	GAIN/LOSS ON INVESTMENTS	4314-000			6,633.00			
		to adjust value of huntington bankshares							
					6,633.00	6,633.00	(582,372.41)	6,633.00	

E. A. HAWSE HEALTH CENTER, INC.

Year End: May 31, 2013  
 Adjusting Journal Entries  
 Date: 6/1/2012 To 5/31/2013

Prepared by	1st Review	2nd Review
EJE 5/22/2014	KW 5/30/2014	

0804-2

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
12	5/31/2013	ACCRUED ANNUAL LEAVE	2400-000			23,903.76			
12	5/31/2013	PR-VACATION	6440-000		23,903.76				
		To adjust accrued vacation							
					23,903.76	23,903.76	(606,276.17)	(23,903.76)	
13	5/31/2013	GRANT RECEIVABLE	1205-000			43.00			
13	5/31/2013	TEMP REST GRANTS:ADM	3200-000		43.00				
		to adjust temp restricted net assets							
					43.00	43.00	(606,276.17)	0.00	
14	5/31/2013	ACCOUNTS PAYABLE	2000-000			66,158.53			
14	5/31/2013	INSURANCE W/H	2109-000		130,819.35				
14	5/31/2013	INS-FACILITY	5710-190		2,336.20				
14	5/31/2013	INS-MAJOR MEDICAL	5720-000			66,997.02			
		to adjust insurance							
					133,155.55	133,155.55	(541,615.35)	64,660.82	
15	5/31/2013	CV CHECKING	1000-000			965,773.45			
15	5/31/2013	ACCOUNTS PAYABLE	2000-000		965,773.45				
		to adjust A/P							
					965,773.45	965,773.45	(541,615.35)	0.00	
16	5/31/2013	WORKERS COMP PAYABLE	2111-000		17,046.00				
16	5/31/2013	PR TAX-WORKERS COMP	6320-000			17,046.00			
		to adjust worker's compensation							
					17,046.00	17,046.00	(524,569.35)	17,046.00	
17	5/31/2013	INVENTORY	1500-000		1,230.20				
17	5/31/2013	INVENTORY:DENTAL/P-BURG	1500-210			5,728.55			
17	5/31/2013	INVENTORY - PHARMACY	1500-230			30,957.52			
17	5/31/2013	INVENTORY:PHY-W	1500-240			24,430.00			
17	5/31/2013	SUPPLIES, 340B PHARMACY	6801-130		59,885.87				
		to adjust inventory							
					61,116.07	61,116.07	(584,455.22)	(59,885.87)	
18	5/31/2013	ANNUITY/LIFE INSURANCE W/H	2103-000			12,748.00			
18	5/31/2013	ANNUITY/LIFE INSURAN.OFF-B	2103-180			1,857.04			
18	5/31/2013	CHRISTMAS CLUB W/H	2108-000		4,751.63				
18	5/31/2013	INS-MAJOR MEDICAL	5720-000		9,853.41				
		to remove over accruals							
					14,605.04	14,605.04	(594,308.63)	(9,853.41)	
19	5/31/2013	COST REPORT SETTLEMENTS	1200-200		17,000.00				
19	5/31/2013	MC/Mcd COST SETTLEMENT	4213-000			17,000.00			
		to record cost report settlement							
					17,000.00	17,000.00	(577,308.63)	17,000.00	
20	5/31/2013	RESERVE FOR BAD DEBTS	1300-000		209,200.00				
20	5/31/2013	ADJ-PRIVATE INSURANCE	4211-000			209,200.00			
		to adjust valuation of receivables							

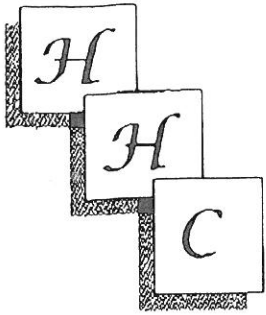
E. A. HAWSE HEALTH CENTER, INC.

Year End: May 31, 2013  
 Adjusting Journal Entries  
 Date: 6/1/2012 To 5/31/2013

Prepared by	1st Review	2nd Review
EJE 1/22/2014	KW 1/30/2014	

0804-3

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
		based on estimated collections				209,200.00	209,200.00	(368,108.63)	209,200.00
					<b>13,430,705.02</b>	<b>13,430,705.02</b>	<b>(368,108.63)</b>	<b>5,881,384.55</b>	



*E. A. Hawse Health Center, Inc.*  
*"Making A Difference"*

*P.O. Box 97*  
*Baker, WV 26801*  
*(304) 897-5915*

February 17, 2014

Arnett Foster Toothman, PLLC  
600 Market Place, Suite 100  
Bridgeport, WV 26330

This representation letter is provided in connection with your audits of the financial statements of E. A. Hawse Health Center, Inc. which comprise the statements of financial position as of May 31, 2013 and 2012 and the related statements of activities, changes in net assets, and cash flows for the years, then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of February 17, 2014:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated July 9, 2013, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have no knowledge of any uncorrected misstatements in the financial statements

*Information Provided*

E. A. Hawse Health Center, Inc., 17978 SR 55, P.O. Box 97, Baker, WV 26801-0097



9. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. All transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
14. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
15. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
16. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
18. We have informed you of all communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

*Supplementary Information*

19. With respect to supplementary information presented in relation to the financial statements as a whole:
  - a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

- 02-77-13 10.13 PROTER BAWSE HEALTH CTR 00407301 1 120 1000/0001 001
20. With respect to the schedules of expenditures of federal and expenditures of state awards presented as required by the Office of Management and Budget, Circular A-133 and State granting agencies to supplement the basic financial statements:
    - a. We acknowledge our responsibility for the presentation of such required supplementary information.
    - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
    - c. The methods of measurement or presentation have not changed from those used in the prior period.
  21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

### *Compliance Considerations*

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

1. We are responsible for:
  - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Wirt County Health Services Association, Inc.
  - b. Establishing and maintaining effective internal control over financial reporting.
2. We have identified and disclosed to you:
  - a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
  - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
3. We have a process to track the status of audit findings and recommendations.
4. We have identified for you previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
5. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions for the report.
6. Gary Johnson, CEO who has sufficient skills, knowledge, and experience; has supervised, reviewed, and approved, and we take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
7. Gary Johnson, CEO who has sufficient skills, knowledge, and experience; has supervised, reviewed, and approved, and we take full responsibility for all Medicare and Medicaid Cost Report filings, preparation of financial statements and an acknowledgement of the auditor's role in the preparation of the adjustments.

In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we confirm:

8. We are responsible for complying, and we have complied, with the requirements of OMB Circular A-133.

E. A. Hawse Health Center, Inc., 17978 SR 55, P.O. Box 97, Baker, WV 26801-0097

9. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.
10. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
11. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
12. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
13. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
14. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.
15. We believe that we have complied with the direct and material compliance requirements.
16. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
17. We have provided you our interpretations of any compliance requirements that are subject to varying interpretations.
18. We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of your report.
19. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of your report.
20. We are responsible for taking corrective action on audit findings of the compliance audit.
21. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
22. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
23. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report.
24. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with

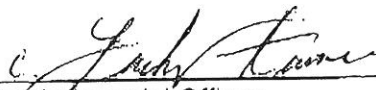
regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.

25. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
26. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
27. We have charged costs to federal awards in accordance with applicable cost principles.
28. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
29. We will accurately complete appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.

E. A. Hawse Health Center, Inc.

  
\_\_\_\_\_  
Chief Executive Officer

2/26/2014  
Date

  
\_\_\_\_\_  
Chief Financial Officer

02/26/2014  
Date