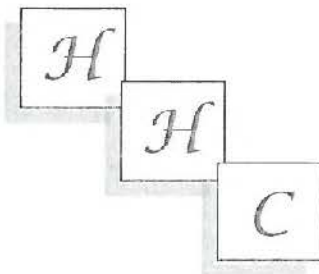


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Hawse Health Center
"Making A Difference"

P.O. Box 97
Baker, WV 26801
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Financial Report and Single Audit Reports

May 31, 2016 and 2015

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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SCHEDULES OF EXPENDITURES 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, 2016 and 2015, 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, 2016 and 2015, 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 2016 financial statements as a whole. The accompanying schedules of expenditures of federal awards and expenditures of state awards, as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards 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 audit 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 28, 2017, 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 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.

Arnold Cockis Rothman LLP

Bridgeport, WV
February 28, 2017

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

May 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 1,753,315	\$ 1,489,754
Patient service and third-party receivables, net	1,527,829	1,039,077
Grants receivable	55,660	244,361
Medicare and Medicaid cost report receivables	35,000	25,000
Inventories	445,758	395,588
Prepaid expenses and deposits	21,775	61,270
Total current assets	<u>3,839,337</u>	<u>3,255,050</u>
PROPERTY AND EQUIPMENT, at cost		
Land	38,638	38,638
Buildings and improvements	2,355,841	2,369,462
Furniture and equipment	1,912,429	1,689,261
	<u>4,306,908</u>	<u>4,097,361</u>
Less accumulated depreciation	<u>2,547,524</u>	<u>2,347,496</u>
	<u>1,759,384</u>	<u>1,749,865</u>
Total assets	<u>\$ 5,598,721</u>	<u>\$ 5,004,915</u>
LIABILITIES AND NET ASSETS		
Notes payable, current portion	\$ 67,339	\$ 73,754
Trade accounts payable	168,257	239,117
Accrued expenses	416,534	324,042
Total current liabilities	<u>652,130</u>	<u>636,913</u>
Notes payable, long-term portion	532,674	805,502
Deferred revenue	26,000	26,400
Total liabilities	<u>1,210,804</u>	<u>1,468,815</u>
NET ASSETS		
Unrestricted	4,365,246	3,318,642
Temporarily restricted	22,671	217,458
Total net assets	<u>4,387,917</u>	<u>3,536,100</u>
Total liabilities and net assets	<u>\$ 5,598,721</u>	<u>\$ 5,004,915</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, 2016 and 2015

	2016	2015
Unrestricted revenues and support		
Patient service revenues, net of contractual allowances	\$ 12,616,976	\$ 10,449,534
Less bad debts and allowances	<u>3,448,185</u>	<u>2,196,332</u>
Net patient service revenues	9,168,791	8,253,202
Donated pharmaceuticals	120,051	137,129
Federal grants	1,344,964	1,060,874
State grants	212,653	261,433
Net assets released from restrictions	212,049	38,725
Other	<u>106,289</u>	<u>11,903</u>
Total unrestricted revenues and support	<u>11,164,797</u>	<u>9,763,266</u>
Unrestricted expenses		
Salaries and wages	4,804,143	4,488,735
Donated drugs and supplies	120,051	137,129
Medical and other supplies	3,010,127	2,241,009
Payroll taxes and employee benefits	759,841	715,209
Contracted services	256,588	246,669
Professional services	63,144	65,746
Repairs and maintenance	244,402	198,774
Rent	224,723	144,594
Depreciation	200,028	166,080
Insurance	21,606	20,674
Utilities and telephone	194,520	142,281
Travel and education	34,843	58,897
Interest	53,561	62,146
Other	<u>130,616</u>	<u>65,531</u>
Total unrestricted expenses	<u>10,118,193</u>	<u>8,753,474</u>
Change in unrestricted net assets	<u>\$ 1,046,604</u>	<u>\$ 1,009,792</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, 2016 and 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
Balance May 31, 2014	\$ 2,308,850	\$ 44,134	\$ 2,352,984
Restricted grants	-	212,049	212,049
Net assets released from restrictions	-	(38,725)	(38,725)
Change in unrestricted net assets	<u>1,009,792</u>	<u>-</u>	<u>1,009,792</u>
Changes in net assets	<u>1,009,792</u>	<u>173,324</u>	<u>1,183,116</u>
Balance May 31, 2015	3,318,642	217,458	3,536,100
Restricted grants	-	17,262	17,262
Net assets released from restrictions	-	(212,049)	(212,049)
Change in unrestricted net assets	<u>1,046,604</u>	<u>-</u>	<u>1,046,604</u>
Changes in net assets	<u>1,046,604</u>	<u>(194,787)</u>	<u>851,817</u>
Balance May 31, 2016	<u>\$ 4,365,246</u>	<u>\$ 22,671</u>	<u>\$ 4,387,917</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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 851,817	\$ 1,183,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	200,028	166,080
(Increase) decrease in:		
Patient and third-party receivables	(488,752)	75,514
Federal and state grants receivable	188,701	(197,618)
Medicare and Medicaid cost report receivables	(10,000)	168,179
Inventories	(50,170)	(107,826)
Prepaid expenses and deposits	39,495	(1,317)
Increase (decrease) in:		
Trade accounts payable	(70,860)	63,937
Accrued expenses	92,492	98,089
Deferred revenue	(400)	(400)
Net cash provided by operating activities	<u>752,351</u>	<u>1,447,754</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquisitions	<u>(209,547)</u>	<u>(140,123)</u>
Net cash (used in) investing activities	<u>(209,547)</u>	<u>(140,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(279,243)</u>	<u>(217,360)</u>
Net cash (used in) financing activities	<u>(279,243)</u>	<u>(217,360)</u>
Net increase in cash and cash equivalents	263,561	1,090,271
Cash and cash equivalents, beginning	<u>1,489,754</u>	<u>399,483</u>
Cash and cash equivalents, ending	<u>\$ 1,753,315</u>	<u>\$ 1,489,754</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 53,561</u>	<u>\$ 62,146</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 15 members. The General Membership is responsible for electing the Center's Board of Directors. The 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*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, 2016 and 2015 the allowances for uncollectible accounts were \$507,974 and \$377,974, 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 3% 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*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 \$662,015 and \$473,135 for the years ended May 31, 2016 and 2015, 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 \$68,960 and \$138,358 for the years ended May 31, 2016 and 2015, respectively. The 2016 estimate does not include \$105,000 in costs associated with the patient assistance program and 13,000 prescriptions for which the Organization only receives approximately \$5 dispensing fee from the Medicaid program, which does not cover the average cost to the Organization. Additional items were similar during 2015.

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 has temporarily restricted net assets of \$22,671 and \$217,458 at May 31, 2016 and 2015, respectively, which 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 predominantly prospective payment reimbursements from the Medicare, WV Chip 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.

NOTES TO FINANCIAL STATEMENTS

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. 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, 2016 and 2015.

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 Organization's federal return of organizations exempt from income taxes for tax years ending 2015 (unfiled) and 2014, 2013 and 2012 (filed) remain subject to examination by the Internal Revenue Service.

NOTE 6. 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. 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, 2016 and 2015, were as follow:

	2016	2015
Administrative and general	\$ 1,784,007	\$ 1,488,133
Program services	<u>8,334,186</u>	<u>7,265,341</u>
	<u>\$10,118,193</u>	<u>\$ 8,753,474</u>

NOTE 8. NOTES PAYABLE

	2016	2015
Capon Valley Bank; payable in monthly installments of \$1,974 including interest at 6.25%, secured by deed of trust and clinic buildings, paid off during 2016 fiscal year.	\$ -	\$ 213,855
Capon Valley Bank; payable in monthly instalments of \$4,094 including interest at 6.25%, secured by deed of trust and clinic buildings and land, maturing on September 4, 2028.	421,609	445,497
Capon Valley Bank; payable in monthly Installments of \$4,490 including interest at 6.25%, secured by deed of trust and clinic buildings and land, maturing on February 22, 2020.	<u>178,404</u>	<u>219,904</u>
	600,013	879,256
Less current portion	<u>67,339</u>	<u>73,754</u>
	<u>\$ 532,674</u>	<u>\$ 805,502</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8. NOTES PAYABLE

As of May 31, 2016, future payments on notes payable for the years ending May 31 are as follows:

2017	\$ 67,339
2018	70,856
2019	76,280
2020	66,258
2021	30,074
Thereafter	<u>289,206</u>
	<u>\$ 600,013</u>

NOTE 9. 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, 2016 and 2015, 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 10. 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, 2016 and 2015 was \$26,000 and \$26,400, 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. 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, 2016 through February 28, 2017, which is the date this report is available to be issued. There has been no material event noted during this period that would either affect the results reflected in this report or the Organization's results going forward.

**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, 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, 2016, 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 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered E. A. Hawse Health Center, Inc. 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 first paragraph of this section 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 or 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 *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. We consider items number 2016-001, 2016-002 and 2016-003 to be material weaknesses.

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.

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

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Anneth Carbis Toothman LLP

Bridgeport, West Virginia
February 28, 2017

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

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 OMB *Compliance Supplement* that could have a direct and material effect on each of E. A. Hawse Health Center, Inc.'s major federal programs for the year ended May 31, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 for each major federal program. Our audit does not provide a legal determination of E. A. Hawse Health Center, Inc.'s compliance with those requirements.

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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 and 2016-003 that we consider to be material weaknesses.

The Organization's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was

not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Annett Carlin Toothman LLP

Bridgeport, West Virginia
February 28, 2017

DHHR - Finance

APR 21 2017

Date Received

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

Year Ended May 31, 2016

Federal Grantor	Federal CFDA/ Grant Number	Federal Expenditures
Direct Awards:		
US Department of Health and Human Services-Health Resources & Services Administration-		
Community Health Centers Program	93.224	\$ 689,827
Affordable Care Act - Grants for New and Expanded Services under the Health Center Program	93.527	867,211
Community Health Centers Program Cluster		<u>\$ 1,557,038</u>
Passed through West Virginia Department of Health and Human Resources		
Grants to State to Support Oral Health Workforce Activities	93.236 G160220	\$ 25,000
Total Federal Funding		<u>\$ 1,582,038</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Company under programs of the federal government for the year ended May 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. CFR part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company. Additionally, due to the different reporting requirements of the financial statements from the above schedule some amounts presented may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note B – Indirect costs

The Company does not seek reimbursement of indirect costs under its federal programs. Therefore, the Company has elected to use the 10% de minimis indirect cost rate for the current fiscal year.

Note C – Sub-grants

The Company made no sub-grants during the period.

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

Year Ended May 31, 2016

State Grantor	Grant Number	Award Amount	2015 Receivable (Deferred)	Expenditures	2016 Receivable (Deferred)
Department of Health and Human Human Resources					
Uncompensated Care Grant					
	(06/01/14 - 05/31/2015)	G150110 \$ 293,745	\$ 64,624	\$ -	\$ -
	(06/01/15 - 05/31/2016)	G160253 \$ 282,674	-	187,653	38,398
Total expenditures of state awards			\$ 64,624	\$ 187,653	\$ 38,398

Note A – Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state award activity of the Company under programs of the federal and state governments for the year ended May 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. CFR part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and requirements of the State of West Virginia. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company. Additionally, due to the different reporting requirements of the financial statements from the above schedule some amounts presented may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note B – Indirect costs

The Company does not seek reimbursement of indirect costs under its state programs. Therefore, the Company has elected to use the 10% de minimis indirect cost rate for the current fiscal year.

E. A. HAWSE HEALTH CENTER, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 May 31, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies)? 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)? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? Yes X 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: \$750,000

Auditee qualified as low-risk auditee? Yes X No

E. A. HAWSE HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
May 31, 2016

Section II – Financial Statement Findings and Questioned Costs

Finding Number 2016-001

Finding
Segregation of Duties

Criteria or specific requirement

During our analysis of internal control, we noted that duties related to the custody of assets, authorization of transactions, accounting function, and the record keeping responsibility are not properly separated.

Condition

We noted during our audit that the Organization did not have adequate segregation of duties in the financial accounting office. The CFO who is the main individual responsible for record keeping at the Organization was also given the authority to sign checks.

Effect

Internal accounting control would not reduce to a relatively low level, the risk that irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cause

The financial and accounting department consists of only a few employees. During the year under audit two of these individuals left employment with the Organization and were replaced. However, there was a large backlog of accounting duties to attend to and the CFO was provided the authority to sign checks to help clean up the situation.

Questioned Costs

There were no questioned costs associated with this finding.

Recommendation

We recommend that the signature authority be removed from the CFO position and instead authorize another employee outside of the custody and record keeping functions have this authority instead.

Finding Number 2016-002

Finding
Supporting Documentation for Expenses

Criteria or specific requirement

Documentation should be retained regarding expenditures to ensure proper accountability in the area of expenditures.

Condition

Accounting records including supporting invoices and signatures could not be readily located for three items during expense testing.

Effect

The Organization was failing to exercise proper control over disbursements and record keeping.

Cause

The Organization had significant turn over in the accounting department and was several months behind when the new accounting staff were employed. The filing for the prior year was not current at the time of the audit, and even though the invoices that were selected were eventually located, it is possible that other invoices if selected would not be able to be located.

Questioned Costs

There were no questioned costs associated with this finding.

Recommendation

All statements and invoices for all expenditures should be maintained in a proper filing system for accessibility in the event of inspection, along with all signatures of approval.

Finding Number 2016-003**Finding**

Electronic accounting system is not adequate for the Organization.

Criteria or specific requirement

The electronic accounting system for an organization should be able to produce accurate and reliable reports for management, the board of directors and outside entities.

Condition

The Organization has utilized an electronic accounting system for several years; however the system is no longer able to produce reliable accounting subsidiary ledgers.

Effect

The Organization cannot produce adequate subsidiary ledgers or perform reconciliations on the electronic accounting system and have instead needed to resort to other software, hand written or spreadsheet programs to produce the documentation to support the electronic accounting system.

Cause

The Organization has utilized an electronic accounting system for several years, however the staff that were initially trained on how to use the system, are no longer employed at the Organization. It is believed that the on the job training for each successive person in the accounting department may have lost a bit more of the knowledge and the current accounting staff are not able to properly use the system. Additionally, the various accounting staff that have made entries into the system over time have produced several subsidiary ledgers and reconciliation reports that can no longer be relied upon.

Questioned Costs

There were no questioned costs associated with this finding.

Recommendation

We recommend the Organization replace its current electronic accounting system with one that the accounting staff are properly trained on and does not contain many years of data that is no longer relevant to the system.

Section III – Federal Award Findings and Questioned Costs**Finding Number 2016-001**

See Financial Statement description of finding above.

Finding Number 2016-002

See Financial Statement description of finding above.

Finding Number 2016-003

See Financial Statement description of finding above.

Section IV - Corrective Action Plan**Finding Number 2016-001****Views of Responsible Officials and Planned Corrective Action**

To the extent possible, the Organization has segregated duties. We recognize that even though two signatures are required on checks the bank may still clear the checks with only one signature. The Organization will remove the CFO position from signature authority for checks.

Finding number 2016-002**Views of Responsible Officials and Planned Corrective Action**

The Organization has been making efforts to follow this practice consistently going forward. Significant improvement was made subsequent to the employment of the new accounting staff and CFO. The new accounting staff were able to locate all required invoices.

Finding Number 2016-003**Views of Responsible Officials and Planned Corrective Action**

The Organization agrees that the accounting system has been providing less reliable information for management and the Board of Directors. During the current fiscal year the electronic accounting system has been replaced with a new system.

Section V – Summary Schedule of Prior Audit Findings

There were no findings or questioned costs relating to federal award programs in the prior year.