E. A. HAWSE HEALTH CENTER, INC.

Financial and Compliance Report
May 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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. (Organization) which comprise the statements of financial position as of May 31, 2017, and 2016, 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, 2017, and 2016, 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

Our audits were conducted for the purpose of forming an opinion on the 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 (Uniform Guidance) 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.

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
February 28, 2017

DHHR - Finance

APR 2 2018

Date Received

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,204,744	$ 1,753,315
Patient accounts receivable, net	1,127,186	1,527,829
Grants receivable	36,764	55,660
Medicare and Medicaid cost report receivables	50,000	35,000
Inventories	456,858	445,758
Prepaid expenses and deposits	34,376	21,775
Total current assets	3,909,928	3,839,337
PROPERTY AND EQUIPMENT, at cost		
Land	38,638	38,638
Buildings and improvements	2,404,094	2,355,841
Furniture and equipment	2,054,453	1,912,429
	4,497,185	4,306,908
Less accumulated depreciation	2,764,286	2,547,524
Net property and equipment	1,732,899	1,759,384
Total assets	$ 5,642,827	$ 5,598,721
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes payable, current portion	$ 24,948	$ 67,339
Trade accounts payable	85,747	168,257
Accrued expenses	481,901	416,534
Total current liabilities	592,596	652,130
Notes payable, long-term portion	373,203	532,674
Deferred revenue	25,600	26,000
Total liabilities	991,399	1,210,804
NET ASSETS		
Unrestricted	4,646,019	4,365,246
Temporarily restricted	5,409	22,671
Total net assets	4,651,428	4,387,917
Total liabilities and net assets	$ 5,642,827	$ 5,598,721

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended May 31, 2017 and 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenue and other support:		
Patient service revenue, net of contractual allowances	$ 12,550,090	$ 12,616,976
Less bad debts and allowances	3,801,954	3,448,185
Net patient service revenue	8,748,136	9,168,791
Donated pharmaceuticals	127,008	120,051
Federal grants	1,433,832	1,344,964
State grants	127,066	212,653
Net assets released from restrictions	17,262	212,049
Other	124,238	106,289
Total unrestricted revenue and other support	10,577,542	11,164,797
Expenses:		
Salaries and wages	4,756,206	4,804,143
Medical and other supplies	3,066,353	3,010,127
Payroll taxes and employee benefits	941,361	759,841
Contracted services	446,093	256,588
Depreciation	216,762	200,028
Rent	211,376	224,723
Utilities and telephone	198,793	194,557
Donated drugs and supplies	127,008	120,051
Repairs and maintenance	97,489	244,402
Interest	31,955	53,561
Travel and education	20,487	34,843
Professional services	28,527	63,144
Insurance	17,936	21,606
Other	136,423	130,579
Total expenses	10,296,769	10,118,193
Excess of revenue and other support over expenses	280,773	1,046,604
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Grants	-	17,262
Net assets released from restrictions	(17,262)	(212,049)
(Decrease) in temporarily restricted net assets	(17,262)	(194,787)
Change in net assets	263,511	851,817
Net assets, beginning of year	4,387,917	3,536,100
Net assets, end of year	$ 4,651,428	$ 4,387,917

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 263,511	$ 851,817
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	216,762	200,028
Change in reserve for bad debts and allowances	55,548	130,000
(Increase) decrease in assets:		
Patient accounts receivable	345,095	(618,752)
Grants receivable	18,896	188,701
Medicare and Medicaid cost report receivables	(15,000)	(10,000)
Inventories	(11,100)	(50,170)
Prepaid expenses and deposits	(12,601)	39,495
Increase (decrease) in liabilities:		
Trade accounts payable	(82,510)	(70,860)
Accrued expenses	65,367	92,492
Deferred revenue	(400)	(400)
Net cash provided by operating activities	843,568	752,351
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquisitions	(190,277)	(209,547)
Net cash (used in) investing activities	(190,277)	(209,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(201,862)	(279,243)
Net cash (used in) financing activities	(201,862)	(279,243)
Net increase in cash and cash equivalents	451,429	263,561
Cash and cash equivalents:		
Beginning	1,753,315	1,489,754
Ending	$ 2,204,744	$ 1,753,315
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 31,955	$ 53,561

See Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operation: E. A. Hawse Health Center, Inc. (Organization) 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.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk: For purposes of 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.

The Organization maintains accounts in bank deposit accounts which are insured by the Federal Deposit Insurance Corporation (FDIC). At various times throughout the year, the Organization had balances exceeding the FDIC insured limits. The Organization has not experienced any losses in such accounts.

Patient accounts receivable, net: Patient accounts receivables represent the estimated net realizable amounts from patients, third party payors and others for services rendered, based upon historical collection percentages. The Organization utilizes the reserve method for accounting for bad debts, and provides for uncollectible accounts within the allowance for doubtful accounts. Amounts that are deemed uncollectible are charged against the allowance. Management's estimates of allowances for doubtful accounts are based on analysis of individual receivable amounts. Delinquent accounts are determined on a case-by-case basis. Patient accounts receivable are reported net of allowance for uncollectible accounts of $563,522 and $507,974 as of May 31, 2017 and 2016, respectively.

Grants receivable: Grants receivable represent amounts billed to federal and state agencies but not paid as the fiscal year end. Certain grants which allow the Organization to draw down at any time would be included as a receivable and included with temporarily restricted net assets, if the award has been made but the amount has not been drawn down by the Organization.

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

Property and equipment: Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Upon sale or retirement of property and equipment, the asset and related accumulated depreciation is adjusted accordingly, and any resulting gain or loss is included on the statements of activities and changes in net assets.

Major improvements and betterments to property and equipment are capitalized. Expenses for maintenance and repairs which do not extend the lives of the related assets are charged to expense as incurred.

It is the policy of the Organization to capitalize assets whose expected life is in excess of one year and whose cost is greater than $2,000.

Income taxes: The Organization is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an entity that is not a private foundation under 509(a)(1). Accordingly, no provision for income taxes has been provided.

The Organization follows guidance for accounting for uncertainty in income taxes recognized in an organization's financial statements that prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authorities. Generally, the tax returns for the years ended May 31, 2014 and thereafter remain subject to examination by the federal and state tax authorities.

Net assets: Unrestricted net assets are neither permanently nor temporarily restricted by donor- or grantor-imposed stipulations.

Temporarily restricted net assets result from contributions, grants or other inflows of assets whose use by the Organization is limited by donor- or grantor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications to or from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations. The Organization has temporarily restricted net assets of $5,409 and $22,671 as of May 31, 2017 and 2016, respectively.

Permanently restricted net assets, result from contributions, grants or other inflows of assets whose use by the Organization is limited by donor- or grantor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Organization, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications from or to other classes of net assets as a consequence of donor or grantor imposed stipulations. The Organization does not have any permanently restricted net assets.

Charity care: The Organization provides care to patients who meet certain criteria without charge or at amounts less than its established rates under a sliding fee arrangement covered by grant funds. The criteria for charity care considers family income, liquid assets and family worth as well as other subjective items. Because the Organization does not pursue collection of these amounts, they are not included in net patient revenues.

The net cost of charity care provided was $680,942 and $662,015 for the years ended May 31, 2017, and June 1, 2016, 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 $17,000 and $68,960 for the years ended May 31, 2017, and 2016, respectively. The estimates do not include costs associated with the patient assistance program and 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.

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

Net patient service revenue: 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. The Organization is approved as an FQHC. As an FQHC, the Organization will receive prospective payment, fee for service and cost-based reimbursement from the Medicare program and prospective payment and fee for services from the Medicaid program.

Excess of revenues and other support over expenses: The statements of activities and changes in net assets include other support. Changes in net assets which are excluded from excess of revenues and other support, consistent with industry practice, include restricted contributions.

Advertising: Advertising costs are expensed as incurred. Total advertising costs for the years ended May 31, 2017 and 2016, were $18,892 and $20,253, respectively.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through February 28, 2018, the date the financial statements were available to be issued, for potential recognition or disclosure.

Note 2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance related to recognition of revenue from contracts with customers. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and requires certain qualitative and quantitative disclosures regarding revenue arising from contracts with customers. This will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. Subsequently, the FASB has issued varied guidance with the purpose of clarifying Topic 606: Revenue from Contracts with Customers. Such clarifications included: improving the operability and understandability of the implementation guidance on principal versus agent considerations; identifying performance obligations and also to improve the operability and understandability of the licensing implementation guidance; clarifying the objective of the collectability criterion for applying paragraph 606-10-25-7; permitting an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; specifying that the measurement date for noncash consideration is contract inception; providing a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations; determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations; clarifying that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application; and clarifying that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. This guidance will be effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact, if any, that adoption will have on its financial statements. Management has not yet selected a transition method nor has the effect of this guidance on the Organization's ongoing financial reporting been determined.

In July 2015, the FASB issued guidance with the purpose of simplifying that inventory currently be measured at the lower of cost or market. This guidance does not apply to inventory that is measured using last-in, first-out or the retail inventory method. This guidance does apply to other inventory, which includes inventory that is measured using first-in, first-out or average cost. This guidance states that an organization should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price used in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for all entities for fiscal years beginning after December 15, 2016. The Organization is currently evaluating the impact, if any, that adoption will have on its financial statements.

In February 2016, the FASB issued guidance related to recognition by a lessee of assets and liabilities on leases with terms of more than 12 months on the balance sheet. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease; however, unlike current U.S. GAAP, which requires that only capital leases be recognized on the balance sheet, the Accounting Standards Update (ASU) requires that both types of leases be recognized on the balance sheet. The ASU also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Lessor accounting remains largely unchanged from current U.S. GAAP, but the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance. Transition guidance is provided within the ASU and generally requires a retrospective approach. The guidance will be effective for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the impact, if any, that adoption will have on its financial statements.

In August 2016, the FASB issued guidance to improve certain current financial reporting for not-for-profits (NFPs). The main provisions of this ASU will require an NFP to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. NFPs will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. This ASU will also require NFPs to present on the face of the statement of activities the amount of change in each of the two classes of net assets noted above. NFPs will report investment return net of external and direct internal investment expenses and no longer be required to disclose these netted expenses. NFPs will also be required to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations or restrictions on gifts of cash of other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restriction to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

This ASU will further require an NFP to provide the following enhanced disclosures about: (a) amounts and purposes of governing board designations, appropriations, and similar actions as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources; (c) qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date; (d) quantitative information, either on the face of the statements of financial position or in the notes, and additional qualitative information in the notes as necessary that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date; (e) amounts of expenses by both their natural classification and their functional classification; and (f) method used to allocate costs among program and support functions. This guidance is effective for NFPs with fiscal years beginning after December 15, 2017. Early adoption is permitted. The Organization is currently evaluating the impact, if any, that adoption will have on its 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, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Organization.

Note 4. 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 5. Notes Payable

The following is a summary of notes payable as of May 31:

	2017	2016
Capon Valley Bank; payable in monthly installments of $4,094 including interest at 6.25%, secured by deed of trust and clinic buildings and land, maturing on September 4, 2028.	$ 398,151	$ 421,609
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, loan paid off during fiscal year.	-	178,404
	398,151	600,013
Less current portion	24,948	67,339
	$ 373,203	$ 532,674

As of May 31, 2017, future payments on notes payable are as follows:

Years Ending May 31:	
2018	$ 24,948
2019	26,552
2020	28,203
2021	30,074
2022	32,009
Thereafter	256,365
	$ 398,151

Note 6. Line of Credit

The Organization has a line of credit with Capon Valley Bank in the amount of $250,000, with interest payable at 4.50%. The Organization did not have an outstanding balance under this line of credit as of May 31, 2017 or 2016. This line is secured by land and the E. A. Hawse Health Center building.

Note 7. 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 Organization 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 2081. The deferred revenue balance as of May 31, 2017 and 2016, was $25,600 and $26,000, respectively.

The land that the Organization is leasing to Hemlock, LLC was acquired as part of a larger tract, which includes the location of the Organization. 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.

The Organization also has month to month leases for its locations in Moorefield and Wardensville, West Virginia at a cost of $4,000 and $600 per month, respectively. The Organization leases its Mathias, West Virginia location for $1 per year for 25 years (ending in January 2023) and has an option to renew of an additional 25 years. The Petersburg, West Virginia location is leased for 10 years, expiring in July of 2025, with an option to renew for 10 additional years, at a cost of $13,196 per month plus any maintenance, insurance and property taxes, which vary from year to year.

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, were as follows:

	2017	2016
Administrative and general	**$ 2,004,317**	$ 1,784,007
Program services	**8,292,452**	8,334,186
	$ 10,296,769	$ 10,118,193

Note 9. Commitments and Contingencies

Laws and regulations: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

E. A. HAWSE HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2017

Federal Grantor / Program or Cluster Title	Federal CFDA Number		Federal Expenditures
U.S. Department of Health and Human Services			
Health Resources & Services Administration			
Consolidated Health Centers Program	93.224	$	689,827
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527		761,267
Total for Health Center Program Cluster		$	1,451,094
Total expenditures of federal awards		$	1,451,094

See Notes to Schedule of Expenditures of Federal Awards
See Independent Auditor's Report

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of E. A. Hawse Health Center, Inc. (Organization) under programs of the federal government for the year ended May 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Indirect Costs

The Organization does not seek reimbursement of indirect costs under its federal programs. Additionally, the Organization has never negotiated an indirect cost rate with its cognizant agency. Therefore, the Organization has elected to use the 10% de minimis indirect cost rate.

Note 4. Subrecipients

The Organization does not pass federal awards to subrecipients.

E. A. HAWSE HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended May 31, 2017

State Grantor/Program	Grant Number	Award Amount	2016 Receivable	Expenditures	2017 Receivable
Department of Health and Human Human Resources					
Uncompensated Care Grant					
(07/01/16 - 06/30/2017)	G170364	$ 121,198	$ -	$ 107,868	$ 36,764
(07/01/15 - 06/30/2016)	G160253	$ 174,539	38,398	19,198	-
Total expenditures of state awards			$ 38,398	$ 127,066	$ 36,764

See Notes to Schedule of Expenditures of State Awards
See Independent Auditor's Report

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended May 31, 2017

Note 1. Basis of Presentation

The schedule of expenditures of state awards (Schedule) is prepared on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) which the requirements of the State of West Virginia are based. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. Additionally, due to the different reporting requirements of the financial statements from those of the above schedule some amounts presented may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State of West Virginia, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Costs

The Organization does not seek reimbursement of indirect costs under its state programs. Additionally, the Organization has never negotiated an indirect cost rate with its cognizant agency. Therefore, the Organization has elected to use the 10% de minimis indirect cost rate.

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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*

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. (Organization) which comprise the statements of financial position as of May 31, 2017, 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, 2018.

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.

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 2017-001, 2017-002 and 2017-003 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

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.

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
February 28, 2018

DHHR - Finance
APR 2 2018
Date Received

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

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 E. A. Hawse Health Center, Inc.'s major federal programs for the year ended May 31, 2017, 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 (CFR)* 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, 2017.

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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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

Purpose of This Report

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

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
February 28, 2018

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weekness(es) identified?	X	Yes		No
Significant deficiency(ies)?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	None Reported

Federal Awards

Internal control over major programs				
Material weekness(es) identified?		Yes	X	No
Significant deficiency(ies)?		Yes	X	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
93.224, 93.527	Health Center Program Cluster

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Material weaknesses in Internal Control over Financial Reporting

Finding Number 2017-001

Finding:	Transition to New Accounting Software
Criteria:	The electronic data processing system for an organization should keep up to date and accurate records of all transactions and maintain an accurate listing of account balances. The accounting department should review these transactions periodically and ensure that they are accurately posted.
Condition:	Accounting records in the electronic data processing system appear to have been processed correctly, however, the beginning balance numbers were not properly entered into the system.
Cause:	The Organization did not enter the beginning balances for the balance sheet accounts when the new software was purchased. The beginning balances should be considered and entered when a new software system is implemented. This is normally an infrequent occurrence. This should have been noticed and corrected when the reconciliations for bank accounts and other balance sheet accounts were reviewed.
Effect:	The Organization's balance sheet accounts were not accurate during the fiscal year.
Questioned Costs:	There were no questioned costs associated with this finding.
Recommendation:	We recommend that all balance sheet accounts receive a review at least quarterly, and the more important accounts (i.e. cash, accounts receivable, accounts payable) be reviewed at the end of each month to ensure they are accurately stated in the electronic data processing system.
Views of Responsible Official:	Management has made the corrective entries to the software. See Corrective Action Plan for actions taken.

Finding Number 2017-002

Finding:	Posting of cash receipts and revenue for pharmacy accounts.
Criteria:	Revenue and related receivable transactions should be posted to the electronic accounting system on a recurring and routine basis. These postings can occur on a daily, weekly or monthly basis. The accounting records of the organization should reflect the proper revenue and receivable activities of each business transaction in which the Organization engages.
Condition:	The Organization posted the receipts from the pharmacy programs to accounts receivable as proper. However, the revenue portion of the pharmacy transactions were not recorded on a regular basis. It appears that there was not a proper reconciliation made of the pharmacy receivable or revenue accounts during the fiscal year.
Cause:	The Organization did not enter the beginning balances for the balance sheet account, the revenue and receivable transactions were not posted periodically and it does not appear the accounting department reviewed the accounts on a periodic basis to compare to the subsidiary records.
Effect:	The Organization's balance sheet and revenue accounts were not accurate during the fiscal year.
Questioned Costs:	There were no questioned costs associated with this finding.
Recommendation:	We recommend the all balance sheet accounts receive a review at least quarterly, that all revenue transactions be posed to the accounting records at least monthly.
Views of Responsible Official:	Management is implementing a monthly process to record all revenues for pharmacy and other programs on a timely basis. See Corrective Action Plan for actions taken.

Finding Number 2017-003

Finding:	Accounts payable and other liabilities were not reviewed and adjusted during the period.
Criteria:	The accounts payable, certain accrued expenses and the related expense accounts should be reviewed on a periodic basis to ensure that the electronic accounting system is maintaining accurate records of the Organization's activities. The accounting records of the Organization should reflect the proper accounts payable, accrued expenses and the related expense accounts of each business transaction in which the Organization engages.

Condition:	The Organization posted some payments to the accounts payable account improperly, resulting in accounts payable being understated by a significant amount. Additionally, it appears that certain accrued expenses related to payroll and vacation time were not adjusted at year end to the estimated balances. It appears that there was not a proper reconciliation made of the accounts payable and accrued expense accounts during the fiscal year.
Cause:	The Organization did not enter the beginning balances for the balance sheet accounts, the liability amounts were not posted periodically and it does not appear the accounting department reviewed the accounts on a periodic basis to compare to the subsidiary records.
Effect:	The Organization's balance sheet and expense accounts were not accurate during the fiscal year.
Questioned Costs:	There were no questioned costs associated with this finding.
Recommendation:	We recommend the all balance sheet accounts receive a review at least quarterly.
Views of Responsible Official:	Management is implementing a monthly process to reconcile accounts payable detail subsidiary ledger on a timely basis. See Corrective Action Plan for actions taken.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None reported.

E. A. HAWSE HEALTH CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Material weaknesses in Internal Control over Financial Reporting

Finding Number 2016-001

Finding: Segregation of Duties

Criteria: 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 were 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.

Cause: The financial and accounting department consists of only a few employees. During the year two of these individuals left employment with the Organization. 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.

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.

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

Corrective Action: The CFO was removed from this authority when this was brought to management's attention. This item appears to have been properly corrected during 2017.

Finding Number 2016-002

Finding: Supporting Documentation for Expenses

Criteria: 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.

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.
Effect:	The Organization was failing to exercise proper control over disbursements and record keeping.
Corrective Action:	This finding appears to have been properly corrected during the fiscal year.
Finding Number 2016-003	Electronic accounting system is not adequate for the Organization.
Finding:	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.
Criteria:	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.
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 are 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.
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.
Corrective Action:	The Organization replaced its current electronic accounting system with one that the accounting staff are properly trained on. This finding appears to have been properly corrected during the fiscal year.

E. A. HAWSE HEALTH CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

None reported.