

FRANKLIN PRIMARY HEALTH CENTER, INC.

Financial Statements

For the Year Ended
November 30, 2012

Federal Employer Identification Number: 63-0695975

Franklin Primary Health Center, Inc.

Table of Contents

Independent Auditor's Report	1
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Independent Auditor's Report On Supplementary Information	16
Schedule of Expenses-Community Health Center Program	17
Schedule of Expenses-Ryan White Title III Program	18
Schedule of Expenses-Homeless Program	19
Schedule of Expenses-Public Housing Program	20
Other Reports	
Independent Auditor's Report On Internal Control Over Financial Reporting And on Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	22
Independent Auditor's Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	24
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs	28

McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle, CPA

Of Counsel
E.W. McKean, Jr., CPA

Independent Auditor's Report

To the Board of Directors
Franklin Primary Health Center, Inc.
Mobile, Alabama

We have audited the accompanying statement of financial position of Franklin Primary Health Center, Inc. ("Franklin"), a nonprofit organization, as of November 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Franklin's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Franklin as of November 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2013, on our consideration of Franklin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Franklin as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McKean & Associates

April 17, 2013
Mobile, Alabama

Financial Statements

Franklin Primary Health Center, Inc.

**Statement of Financial Position
November 30, 2012**

Assets	
Current assets	
Cash	\$ 43,694
Accounts receivable, less an allowance of \$5,220,200 for adjustments	1,675,523
Inventory - pharmacy	83,960
Inventory - Ryan White Title III pharmacy	21,005
Prepaid expenses	531,149
Other receivables	279,195
Other assets	78,217
Note receivable	14,970
Total current assets	<u>2,727,713</u>
Property and equipment, net	<u>9,930,253</u>
Total assets	<u>\$ 12,657,966</u>
Liabilities and Net Assets	
Current liabilities	
Bank overdraft	\$ 510,695
Accounts payable	939,741
Accrued expenses	1,102,768
Lines of credit	949,402
Current maturities of long-term debt	
Notes payable	213,614
Bond payable	269,069
Current portion of obligation under capital lease	292,067
Total current liabilities	<u>4,277,356</u>
Long-term debt, net of current portion	
Notes payable	153,165
Bond payable	3,364,428
Obligation under capital lease	230,162
Total long-term debt, net of current portion	<u>3,747,755</u>
Total liabilities	<u>8,025,111</u>
Net assets - unrestricted	<u>4,632,855</u>
Total liabilities and net assets	<u>\$ 12,657,966</u>

The accompanying notes are an integral part of these financial statements.

Franklin Primary Health Center, Inc.

**Statement of Activities
For the Year Ended November 30, 2012**

Unrestricted support and revenue

Support

Federal grants	\$ 8,032,174
Donations - in kind, 330 Program	2,419,054
Grants - Ryan White Title II Program	276,785
Other grants	101,600
Donations - other	21,843
Grants - Homeless Program	4,337
Total support	<u>10,855,793</u>

Revenue

Patient services, before other adjustments	10,189,878
Patient services, other adjustments	(1,025,793)
Other revenue	498,214
Program income - Public Housing, net	223,116
Program income - Ryan White Title III Program, net	138,298
Other revenue - Ryan White Title III	1,689
Program income - Homeless Program, before other adjustments	(22,033)
Program income - Homeless Program, other adjustments	16,095
Interest income	1,223
Total revenue	<u>10,020,687</u>

Total support and revenue 20,876,480

Expenses

Community Health Center Program	19,175,389
Ryan White Title III Program	853,163
Homeless Program	499,728
Public Housing Program	555,027
Total expenses	<u>21,083,307</u>

Change in unrestricted net assets (206,827)

Unrestricted net assets, beginning of year 4,839,682

Unrestricted net assets, end of year \$ 4,632,855

The accompanying notes are an integral part of these financial statements.

Franklin Primary Health Center, Inc.

Statement of Functional Expenses November 30, 2012

	Medical	Dental	Optometry	Pharmacy	Lab	X-Ray	Medical Records	Social Services	Trans- portation	Facilities	Manage- ment and General	Total Functions
Salaries	\$ 5,656,345	\$ 884,291	\$ 371,520	\$ 236,779	\$ 42,988	\$ 52,275	\$ 265,901	\$ 437,026	\$ 50,671	\$ 73,065	\$ 1,924,917	\$ 9,995,778
Fringe benefits & payroll taxes	1,068,470	162,706	84,429	40,755	3,628	14,016	42,362	60,067	23,099	5,901	396,175	1,901,608
Total salaries and related expenses	6,724,815	1,046,997	455,949	277,534	46,616	66,291	308,263	497,093	73,770	78,966	2,321,092	11,897,386
Pharmaceuticals/supplies	315,529	100,929	209,331	3,013,872	437	7,252	7,567	3,521	-	6,247	43,573	3,708,256
Referrals	62,628	38,773	-	-	544,606	52,620	-	76,437	-	-	-	775,064
Collection fees	-	-	-	-	-	-	-	-	-	-	618,376	618,376
Depreciation	-	88,382	26,941	2,333	-	-	-	3,625	-	479,323	-	600,603
Service contracts	133,615	22,461	3,197	9,028	1,778	2,903	2,135	-	-	46,058	181,819	402,994
Telephone	-	11,946	-	-	-	-	-	-	-	342,728	-	354,674
Interest	-	5,642	-	-	-	-	-	-	-	347,472	-	353,114
Security services	-	1,288	-	-	-	-	-	-	-	317,837	-	319,125
Utilities	18,796	5,792	-	-	-	-	-	-	-	246,356	-	270,944
Housekeeping	33,396	8,384	-	-	-	-	-	-	-	184,976	-	226,756
Rental of space	160,542	12,000	-	-	-	-	-	-	-	48,662	-	221,204
Repairs/maintenance	93,851	21,778	10,679	-	-	13,259	-	1,082	2,788	64,750	2,709	210,896
Recruitment	-	-	-	-	-	-	-	-	-	-	210,490	210,490
Insurance	25,935	8,116	-	-	-	-	-	322	11,520	71,011	25,781	142,685
Contract services	107,385	-	-	-	-	-	-	-	-	-	-	107,385
Travel	24,741	27,066	4,739	1,058	-	-	651	5,272	-	17,800	20,763	102,090
Equipment leasing	41,449	6,942	3,665	2,396	1,075	1,075	7,310	420	-	2,048	27,902	94,282
Membership	32,027	4,971	5,545	600	50	-	175	1,094	-	-	32,501	76,963
Education/outreach	-	-	-	-	-	-	-	3,994	-	12,543	58,332	74,869
Bank charges	-	-	-	-	-	-	-	-	-	-	65,671	65,671
Professional fees	-	-	-	-	-	-	-	-	-	-	43,031	43,031
Registration/training	12,011	4,394	2,243	1,097	-	338	959	8,554	-	-	10,256	39,852
Miscellaneous	-	-	-	18	-	-	-	-	-	-	39,687	39,705
Postage and freight	2,019	-	-	-	-	-	-	-	-	27,625	6,324	35,968
Temporary services	1,128	90	146	6,511	-	-	-	-	-	-	13,734	21,609
Board expenses	-	-	-	-	-	-	-	-	-	-	17,337	17,337
Sales/property taxes	-	-	-	5,659	-	-	-	-	-	6,965	-	12,624
Bond expense	-	-	-	-	-	-	-	-	-	-	11,561	11,561
Staff retention	-	-	-	-	-	-	-	67	-	-	11,204	11,271
Patient transportation	-	-	-	-	-	-	-	-	10,371	-	-	10,371
Employee drug screening	-	-	-	-	-	-	-	-	-	-	3,590	3,590
Health fair	2,561	-	-	-	-	-	-	-	-	-	-	2,561
Total expenses	\$ 7,792,428	\$ 1,415,951	\$ 722,435	\$ 3,320,106	\$ 594,562	\$ 143,738	\$ 327,060	\$ 601,481	\$ 98,449	\$ 2,301,367	\$ 3,765,733	\$ 21,083,307

The accompanying notes are an integral part of these financial statements.

Franklin Primary Health Center, Inc.
Statement of Cash Flows
For the Year Ended November 30, 2012

Operating activities	
Change in net assets	\$ (206,827)
Adjustments to reconcile decrease in net assets to net cash flows from operating activities:	
Depreciation	600,603
(Increase) decrease in:	
Accounts receivable	575,642
Inventory - pharmacy	60,718
Prepaid expenses	(53,722)
Other receivables	(197,138)
Note receivable	4,387
Increase (decrease) in:	
Accounts payable	242,922
Accrued expenses	(37,350)
Bank overdraft	(126,417)
Net cash flows from operating activities	<u>862,818</u>
Investing activities	
Purchases of property and equipment	<u>(419,102)</u>
Net cash flows from investing activities	<u>(419,102)</u>
Financing activities	
Unamortized bond costs	(78,217)
Net borrowings (payments) on lines of credit	(149,470)
Principal payments on bond issue	(166,503)
Net borrowings (payments) on long-term debt	132,836
Net borrowings (payments) under capital lease obligations	<u>(196,922)</u>
Net cash flows from financing activities	<u>(458,276)</u>
Net increase (decrease) in cash	(14,560)
Beginning of year	58,254
End of year	<u>\$ 43,694</u>
Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 392,160</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Financial Statements
November 30, 2012**

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Franklin Primary Health Center, Inc. (“Franklin”) provides accessible and affordable comprehensive primary health care services in Mobile, Baldwin, and Choctaw Counties and surrounding areas in Alabama to those in need regardless of race, sex, ability to pay, or age. Franklin has eleven facilities that provide medical and dental services. Primary sources of revenue include federal grants and patient fees.

Franklin requests funds from the Department of Health and Human Services (HHS) in accordance with the grant agreements. All funds disbursed should be in compliance with the specific terms of the grants, as defined. HHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the organization with the terms of the grants. In addition, if the organization terminates its HHS grant activities, all unexpended funds are to be returned to HHS.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Franklin records its activities using the accrual basis of accounting, thereby recognizing revenue when earned and expenses when incurred.

Basis of Presentation

Franklin’s financial statements are presented in accordance with professional standards, which require information regarding its financial position and its activities be presented according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At November 30, 2012, all the Franklin’s assets are unrestricted for the purpose of providing primary health care services.

Accounts Receivable

Accounts receivable represent billings to private patients and third party payers recorded at patient service rates. Private patient charges are based on a sliding fee scale. This scale is used to reduce a patient's charge based on the individual's income and family size. Third party payer receivables represent gross billings that are to be reimbursed based upon contractual agreements. These agreements may result in collections less than the gross billings.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Financial Statements
November 30, 2012**

Note 1 – Summary of Significant Accounting Policies (continued)

An adequate allowance for adjustments has been provided for estimated private patient receivable adjustments and estimated contractual adjustments on third party payer receivables using the reserve method. Reserves are calculated based upon management's experience with the respective third party payers. Accordingly, the allowances for potential non-payment from all sources are estimated to be seventy six (76) percent of gross receivables.

Assets Limited as to Use

Assets limited as to use include assets held by the trustee under indenture agreements for the bond payments.

Restrictions on Assets

In accordance with provisions of the Public Health Service Grants Policy Statement issued by the U.S. Department of Health and Human Services, the Federal government has a reversionary interest in certain property and equipment of the organization. This right may be exercised only if certain conditions as outlined in the Policy Statement exist

Board Designated Reserve

Franklin's Board of Directors authorized the designation of a portion of fund balance as a financial reserve in the previous year, as a protection against the financial risk associated with unanticipated operating expenses necessary to achieve the goals of the health center.

As of November 30, 2012, the Board had designated \$249,352 as a financial reserve. This amount is included in the balance sheet item "Net assets – unrestricted".

Third Party Reimbursements

Franklin accepts assignments from Medicare, Medicaid, and private insurance companies and receives a significant portion of its patient fees from these entities.

Services

Franklin provides medical services to all requesting individuals. In cases where patients are economically unable to pay, discounts are provided, as required by Federal regulations. Franklin has made provisions for any risk associates with services provided.

Operating Fund

As a general rule, Franklin has one fund – the Operating Fund. That fund is used to account for all transactions related to the Federal grants which require the organization to provide primary care medical services to all requesting individuals.

All assets, liabilities and net assets, with the exception of property items, are presented at actual fair values. Property items are presented at estimated fair values which are considered reasonable.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Financial Statements
November 30, 2012**

Note 1 – Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred. These costs are included in community outreach expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Franklin considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Inventory

Pharmacy inventory and Ryan White Title III pharmacy inventory on hand are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets. The cost of leased equipment is amortized over the estimated useful lives of the assets. Generally, Franklin uses a capitalization limit of \$1,000. Depreciation expense was \$600,603 for the year ended November 30, 2012.

Property and equipment, with a unit price greater than \$5,000, acquired with HHS funds are considered to be owned by Franklin while used in the program or in future authorized programs. However, HHS retains a reversionary interest in those assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, Franklin may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of HHS.

Income Taxes

Franklin is a not-for-profit organization exempt from federal income taxation pursuant to Code Section 501(c)(3) of the Internal Revenue Code, as amended.

Franklin uses financial accounting standards guidance for uncertainty in income taxes. Under these standards, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by taxing authorities. As of November 30, 2012, Management determined the organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Franklin's Forms 990, Return of Organization Exempt from Income Tax, for the years ending November 30, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

FRANKLIN PRIMARY HEALTH CENTER, INC.

Notes to Financial Statements
November 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

Retirement Plan

Franklin has a non-qualified retirement plan under Code Section 403(b) of the Internal Revenue Code in which all employees who have attained the age of 18 may elect to participate. Contributions up to 20% of salary, or a maximum of the rate set by the Internal Revenue Service annually, may be made on a tax-deferred basis. For the year ended November 30, 2012, Franklin contributed \$110,090 to the plan.

Donated Materials and Services

Franklin records the value of donated facilities, materials, and services when there is an objective basis available to measure their value. Donated facilities, materials, and services are reflected as support in the accompanying statements at their estimated values at date of receipt.

Note 2 – Economic Dependency

Franklin receives a substantial amount of its support from the federal government. Such funding is subject to special audits, which could result in claims against the organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liability that might arise from such audits as the amounts, if any, cannot be determined at this date.

A significant reduction in the level of Federal support would have an adverse effect on Franklin's programs and activities.

A significant portion of patient service revenues is from third party reimbursement. Such amounts are subject to adjustment. Franklin believes these adjustments will not be materially different than that reflected in these statements.

Note 3 – Property and Equipment

The following is a summary of property and equipment:

Buildings and improvements	\$	9,959,308
Furniture and equipment		4,982,734
Construction in progress		1,275,263
Land		<u>872,820</u>
Total Property and Equipment		<u>17,090,125</u>
Less: Accumulated depreciation		<u>(7,159,872)</u>
Net book value	\$	<u><u>9,930,253</u></u>

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Financial Statements
November 30, 2012**

Note 4 – Lines of Credit

At November 30, 2012, Franklin had the following lines of credit available:

<u>Outstanding</u>	<u>Line Amount</u>	<u>Interest Rate</u>	<u>Expiration</u>	<u>Collateral</u>
\$ 525,684	\$ 750,000	4.75%	8/23/2013	Accounts receivable
\$ 423,719	\$ 500,000	9.00%	4/30/2013	Unsecured

Note 5 – Long-Term Debt

Note payable to a bank, interest at 6.53% per annum, monthly payments of \$3,925 principal and interest secured by real estate	\$ 34,368
Note payable to a bank, interest at 5.875% per annum, monthly payments of \$1,990 principal and interest secured by real estate	141,376
Note payable to a bank, interest at 5.16% per annum, monthly payments of \$3,914 principal and interest unsecured	191,035
Less: Current portion	<u>(213,614)</u>
Total long-term debt	<u><u>\$ 153,165</u></u>

Note 6 – Bonds Payable

On March 1, 2002, Franklin issued revenue bonds in the amount of \$6,000,000 for the construction of a new facility and payment of existing mortgages. Principal and interest payments are due monthly. The following is a summary of bond payments:

November 30,	Principal	Interest
2013	\$ 269,069	\$ 157,999
2014	281,430	145,638
2015	294,359	132,710
2016	307,881	119,187
Thereafter	2,480,758	401,950
Total	\$ 3,633,497	\$ 957,484

FRANKLIN PRIMARY HEALTH CENTER, INC.

Notes to Financial Statements
November 30, 2012

Note 6 – Bonds Payable (continued)

The bonds require that Franklin meet various covenants. Two such covenants require that Franklin's total liabilities do not exceed three times the total equity and that net earnings before interest, depreciation, and amortization at least equal 1.1 the current portion of long-term debt and interest expense. Franklin is not in compliance with the second bond covenant.

Note 7 – Capital Lease

Franklin is the lessee of medical equipment, furniture and office equipment under capital leases expiring in various years through 2015. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease term or their estimated productive lives. Depreciation expenses of the assets under the capital lease totaled \$62,390 for the year ended November 30, 2012.

Following is a summary of property held under capital leases:

Leased Equipment	
Dental Van	\$ 381,201
Medical equipment	219,452
Less: Accumulated depreciation	<u>(207,890)</u>
Net book value	<u><u>\$ 392,763</u></u>

Minimum future lease payments under the capital lease as of November 30 are:

For the years Ended November 30,	
2013	\$ 319,159
2014	182,984
2015	<u>57,319</u>
Total minimum lease payments	559,462
Less: Amount representing interest	<u>(37,233)</u>
Present value of minimum lease payments	<u><u>\$ 522,229</u></u>

Interest rates on capitalized leases vary from 7.00% to 9.40% and are imputed based on the lower of the company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Financial Statements
November 30, 2012**

Note 8 – Operating Lease

Franklin leases twenty copiers under an operating lease expiring July 2015. Rental expense under this lease was \$60,744 for the year ended November 30, 2012.

A minimum future rental payment under this operating lease for the next five years is:

For the years Ended November 30,	
2013	\$ 60,744
2014	60,744
2015	<u>30,372</u>
Minimum future rental payments	\$ <u><u>151,860</u></u>

Note 9 – Note Receivable

Note receivable consisted of the following:

Note receivable created from the sale of a building, secured by building; interest at 6% per annum; monthly payment of \$525 per month starting July 10, 2008; maturity date of April 10, 2015.	<u>\$ 14,970</u>
Total	<u><u>\$ 14,970</u></u>

Note 10 – Commitments

Franklin has formed a collaborative agreement, Alabama Health Care Consortium, LLC, with three other health centers in Alabama (Whatley Health Services, Inc., Health Services, Inc., and Rural Health Services, Inc.) in order to apply for and receive technological grants. This network was established in order to share resources and costs associated with the implementation of new medical records software. The Corporation's allocation of revenue, costs, and assets is 27.0141%.

Note 11 – Credit Risk

Franklin maintains its cash balances in various financial institutions in Alabama. At November 30, 2012, the cash in bank balances did not exceed the federally insured limits.

Note 12 – Date of management's review

Management has evaluated subsequent events through April 17, 2013, the date which the financial statements were available to be issued.

Supplementary Information

McKean & Associates, P.A.
Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle, CPA

Of Counsel
E.W. McKean, Jr., CPA

Independent Auditor's Report on Supplementary Information

To The Board of Directors
Franklin Primary Health Center, Inc.
Mobile, Alabama

Our report on our audit of the basic financial statements of Franklin Primary Health Center, Inc. for the year ended November 30, 2012 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules of expenses are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements taken as a whole.

April 17, 2013
Mobile, Alabama

McKean & Associates

FRANKLIN PRIMARY HEALTH CENTER, INC.

Schedule of Expenses – Community Health Center Program
For the Year Ended November 30, 2012

Salaries	\$ 9,064,864
Supplies	3,343,333
Retirement plan and other benefits	1,053,244
Contract services	911,285
Payroll taxes	691,068
Collection fees	618,376
Depreciation	587,617
Referrals	583,401
Interest	353,114
Telephone	323,437
Utilities	262,747
Rentals	221,204
Recruitment and retention	210,490
Maintenance and repairs	203,024
Patient transportation	92,961
Furniture & equipment leasing	89,781
Insurance - facility	82,304
Miscellaneous	73,939
Membership	73,663
Outreach and education	70,725
Bank and service charges	44,745
Professional fees	43,031
Postage and freight	31,890
Registration, training and travel	31,273
Insurance - administration	26,735
Temporary services	21,271
Board expenses	17,169
Insurance	12,835
Property and other taxes	12,420
Bond issuance expense	11,561
Insurance - patient transportation	8,179
Employee drug screen	3,590
Printing and publications	113
Total	\$ 19,175,389

See auditor's report on supplementary information.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenses – Ryan White Title III Program
For the Year Ended November 30, 2012**

Supplies	\$	336,857
Salaries		267,564
Referrals		121,130
Contract services		65,785
Insurance		21,453
Payroll taxes		21,106
Registration, training and travel		10,359
Retirement plan and other benefits		3,247
Outreach and education		1,396
Telephone		1,086
Depreciation		935
Insurance - administration		827
Maintenance and repairs		700
Temporary services		338
Patient transportation		170
Membership		129
Staff retention		67
Postage and freight		14
		<hr/>
Total	\$	853,163
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See auditor's report on supplementary information.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenses - Homeless Program
For the Year Ended November 30, 2012**

Salaries	\$ 316,162
Payroll taxes	31,991
Supplies	14,594
Telephone	22,156
Referrals	22,042
Contract services	20,387
Insurance	19,881
Patient transportation	10,201
Utilities	8,197
Repairs and maintenance	5,614
Retirement plan and other benefits	5,226
Depreciation	4,750
Registration, training, and travel	4,575
Insurance - patient transportation	3,342
Outreach and education	2,598
Furniture and equipment leasing	2,496
Postage and freight	2,019
Memberships	1,150
Insurance - administration	904
Insurance - facility	615
Bank and service charges	456
Sales tax - pharmacy	204
Board expenses	168
Total	\$ 499,728

See auditor's report on supplementary information.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenses – Public Housing Program
For the Year Ended November 30, 2012**

Salaries	\$	347,183
Contract services		58,804
Referrals		48,492
Insurance		27,330
Payroll taxes		24,589
Supplies		13,360
Retirement plan and other benefits		9,418
Telephone		7,995
Depreciation		7,301
Registration, training, and travel		2,925
Postage and freight		2,046
Membership		2,021
Furniture & equipment leasing		2,005
Repairs and maintenance		1,558
Total	\$	555,027

See auditor's report on supplementary information.

Other Reports

McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle, CPA

Of Counsel
E.W. McKean, Jr., CPA

**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
Franklin Primary Health Center, Inc.
Mobile, Alabama

We have audited the financial statements of Franklin Primary Health Center, Inc. (a nonprofit organization) as of and for the year ended November 30, 2012, and have issued our report thereon dated April 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Franklin is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Franklin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Franklin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin'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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin'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*.

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

April 17, 2013
Mobile, Alabama

McKean & Associates

McKean & Associates, P.A.

Certified Public Accountants

Principals

Ann Broughton, CPA
Cindy B. Rathle, CPA

Of Counsel

E.W. McKean, Jr., CPA

Independent Auditor's Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

To the Board of Directors
Franklin Primary Health Center, Inc.
Mobile, Alabama

Compliance

We have audited the compliance of Franklin Primary Health Center, Inc. (a nonprofit organization) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Franklin's major federal programs for the year ended November 30, 2012. Franklin's major federal programs for the year ended November 30, 2012. Franklin's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Franklin's management. Our responsibility is to express an opinion on Franklin's compliance based on our audit.

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

In our opinion, Franklin complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2012.

Internal Control over Compliance

The management of Franklin is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Franklin's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Franklin'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.

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 the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

April 17, 2013
Mobile, Alabama

McKean & Associates

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenditures of Federal Awards
For the Year Ended November 30, 2012**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Expenditures
U.S. Department of Health and Human Services			
<u>Direct:</u>			
Consolidated Health Center Cluster:			
Community Health Center	93.224	H80CS000999	\$ 6,270,904
Health Centers Grant for Homeless Populations	93.224	H80CS000999	425,457
Health Centers Grant/Residents of Public Housing	93.224	H80CS000999	387,373
Health Centers Migrant Workers	93.224	H80CS000999	63,912
Ryan White Title III	93.918	H76HA00082	576,194
Capital Development	93.526	C8BCS23856	32,223
American Recovery and Reinvestment Act			
Health Information Technology Implementation	93.703	H2L1T16819	139,907
<u>Passed-Through Alabama Department of Mental Health/ Mental Retardation:</u>			
Prevention and Treatment of Substance Abuse	93.959		<u>65,556</u>
Total U.S. Department of Health and Human Services			<u>7,961,526</u>
U.S. Department of Housing and Urban Development			
Pass-Through Homeless Coalition Mobile			
Supportive Housing Program	14.235		70,648
Total Federal Expenditures			<u><u>\$ 8,032,174</u></u>

See independent auditor's report and notes to schedule of expenditures of federal awards.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Notes to Schedule of Expenditures of Federal Awards
November 30, 2012**

1. Franklin uses the accrual basis of accounting in preparing this schedule. This method is consistent with the preparation of Franklin's financial statements.
2. Franklin did not have any non-cash awards during the fiscal year.

See independent auditor's report and notes to schedule of expenditures of federal awards.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Findings and Questioned Costs
November 30, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	no
Significant deficiencies identified not considered to be material weakness(es)?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	no
Significant deficiencies identified not considered to be material weakness(es)?	no
Type of auditor's report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	no

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Findings and Questioned Costs (continued)
November 30, 2012**

Section I – Summary of Auditor’s Results (Continued)

Identification of major programs:

Community Health Center Cluster:

- 93.224 Community Health Center Program
- 93.224 Health Care for the Homeless
- 93.224 Health Care for Residents of Public Housings
- 93.703 American Recovery and Reinvestment Act
- 93.918 Ryan White Title III

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes