

FRANKLIN PRIMARY HEALTH CENTER, INC.

Financial Statements

For the Year Ended
November 30, 2014

EMPLOYER IDENTIFICATION NUMBER: 63-0695975

Franklin Primary Health Center, Inc.

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McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle, CPA

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Franklin Primary Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of November 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 Franklin Primary Health Center, Inc. as of November 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 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 March 31, 2015, on our consideration of Franklin Primary 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 and compliance and the results of that testing, and not to provide an opinion on 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 Franklin Primary Health Center, Inc.'s internal control over financial reporting and compliance.

McKean & Associates

Mobile, Alabama
March 31, 2015

Financial Statements

Franklin Primary Health Center, Inc.

**Statement of Financial Position
November 30, 2014**

Current assets	
Cash	\$ 1,083,695
Accounts receivable, less an allowance of \$5.600,000 for adjustments	1,111,868
Inventory - pharmacy	66,800
Inventory - Ryan White Title III pharmacy	25,797
Prepaid expenses	248,877
Other receivables	120,749
Other assets	54,825
Note receivable	2,997
Total current assets	<u>2,715,608</u>
Property and equipment, net	<u>11,211,424</u>
Total assets	<u>\$ 13,927,032</u>
	Liabilities and Net Assets
Current liabilities	
Bank overdraft	\$ 553,642
Accounts payable	1,009,747
Accrued expenses	1,070,287
Lines of credit	1,049,168
Current maturities of long-term debt	
Notes payable	89,900
Bond payable	294,358
Current portion of obligation under capital lease	82,543
Total current liabilities	<u>4,149,645</u>
Long-term debt, net of current portion	
Notes payable	693,618
Bond payable	2,788,640
Obligation under capital lease	17,214
Total long-term debt, net of current portion	<u>3,499,472</u>
Total liabilities	<u>7,649,117</u>
Net assets - unrestricted	<u>6,277,915</u>
Total liabilities and net assets	<u>\$ 13,927,032</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, 2014**

Unrestricted support and revenue	
Support	
Federal grants	\$ 10,301,194
Donations - in kind, 330 Program	460,007
United Way	142,453
Donations - other	546
Total support	<u>10,904,200</u>
Revenue	
Patient services, net	8,766,507
Other revenue	1,643,169
Program income - Ryan White Title III Program, net	79,965
Program income - Homeless Program, net	44,531
Interest income	685
Total revenue	<u>10,534,857</u>
Total support and revenue	<u>21,439,057</u>
Expenses	
Community Health Center Program	18,079,937
Ryan White Title III Program	894,307
Homeless Program	448,174
Public Housing Program	457,508
Total expenses	<u>19,879,926</u>
Change in unrestricted net assets	1,559,131
Unrestricted net assets, beginning of year	<u>4,718,784</u>
Unrestricted net assets, end of year	<u>\$ 6,277,915</u>

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

FRANKLIN PRIMARY HEALTH CENTER, INC.
Statement of Functional Expenses
For the year ended November 30, 2014

	Medical	Dental	Optometry	Pharmacy	Lab	X-Ray	Medical Records	Social Services	Trans- portation	Facilities	Manage- ment and General	Total Functions
Salaries	\$ 5,864,748	\$ 844,084	\$ 364,249	\$ 229,482	\$ 43,593	\$ 55,730	\$ 249,689	\$ 880,046	\$ 37,857	\$ 105,872	\$ 1,972,349	\$ 10,647,699
Fringe benefits/payroll tax	973,289	160,084	76,257	40,623	3,196	12,822	38,854	108,408	18,140	9,146	369,011	1,809,830
Total compensation	6,838,037	1,004,168	440,506	270,105	46,789	68,552	288,543	988,454	55,997	115,018	2,341,360	12,457,529
Pharmaceuticals/supplies	221,877	106,857	183,998	1,071,018	1,540	3,595	14,020	30,452	-	8,024	118,710	1,760,089
Referrals	66,481	-	-	-	529,986	58,211	-	15,015	-	-	-	669,693
Depreciation	-	21,134	16,424	-	-	-	-	2,154	-	520,977	26,194	586,882
Collection fees	-	-	-	-	-	-	-	-	-	-	688,883	688,883
Service contracts	238,793	28,723	6,532	8,477	143	745	4,508	507	-	77,882	272,871	639,181
Telephone	200	23,177	-	-	-	-	-	-	-	352,056	-	375,433
Rental of space	262,349	12,000	-	-	-	-	-	-	-	38,743	-	313,092
Utilities	24,584	13,444	-	-	-	-	-	-	-	266,011	-	304,039
Security services	-	1,252	-	-	-	-	-	-	-	263,432	-	264,684
Interest	-	-	-	-	-	-	-	-	-	258,273	-	258,273
Housekeeping	36,733	11,523	-	-	-	-	-	-	-	261,961	-	310,217
Insurance	7,746	3,856	-	-	-	-	-	-	9,245	120,144	24,107	165,098
Repairs/maintenance	55,700	7,668	3,846	51	162	14,292	-	-	681	51,257	7,176	140,833
Contract services	115,660	-	-	-	-	-	-	-	-	-	-	115,660
Equipment leasing	35,477	8,974	2,771	2,771	2,583	2,771	2,771	280	-	3,379	22,538	84,315
Travel	39,886	15,972	5,846	-	-	280	-	6,831	-	18,735	20,116	107,666
Education/outreach	-	-	-	-	-	-	-	1,419	-	634	42,442	44,495
Professional fees	-	-	-	-	-	-	-	-	-	-	54,072	54,072
Temporary services	134,959	28,390	483	6,638	-	-	-	349	-	-	20,958	191,777
Bank charges	-	-	-	-	-	-	-	-	-	-	48,355	48,355
Membership	25,489	5,353	5,603	731	-	-	185	403	-	-	35,718	73,482
Recruitment and retention	-	-	-	-	-	-	-	68	-	-	51,878	51,946
Miscellaneous	-	-	-	44	-	-	-	-	-	-	44,387	44,431
Registration/training	15,011	3,508	1,472	-	-	-	-	379	-	-	7,840	28,210
Postage and freight	1,337	246	-	1,337	-	-	-	-	-	21,258	3,787	27,965
Board expenses	-	-	-	-	-	-	-	-	-	-	27,153	27,153
Bond expense	-	-	-	-	-	-	-	-	-	-	25,079	25,079
Patient transportation	-	-	-	-	-	-	-	-	6,892	-	-	6,892
Sales/property taxes	-	-	-	5,268	-	-	-	-	-	6,129	-	11,397
Employee drug screening	-	-	-	-	-	-	-	-	-	-	3,105	3,105
Total expenses	\$ 8,120,319	\$ 1,296,245	\$ 667,481	\$ 1,366,440	\$ 581,203	\$ 148,446	\$ 310,027	\$ 1,046,311	\$ 72,815	\$ 2,383,913	\$ 3,886,729	\$ 19,879,926

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, 2014**

Operating activities	
Change in net assets	\$ 1,559,131
Adjustments to reconcile decrease in net assets to net cash flows from operating activities:	
Depreciation	586,883
(Increase) decrease in:	
Accounts receivable	393,677
Inventory - pharmacy	154
Prepaid expenses	66,836
Other receivables	48,686
Note receivable	6,888
Increase (decrease) in:	
Bank overdraft	(268,807)
Accounts payable	290,131
Accrued expenses	(121,991)
Net cash flows from operating activities	<u>2,561,588</u>
Investing activities	
Purchases of property and equipment	(980,519)
Net cash flows from investing activities	<u>(980,519)</u>
Financing activities	
Unamortized bond costs	11,696
Net borrowings (payments) on lines of credit	(8,888)
Principal payments on bond issue	(281,430)
Net borrowings (payments) on long-term debt	(83,635)
Net borrowings (payments) under capital lease obligations	(226,012)
Net cash flows from financing activities	<u>(588,269)</u>
Net increase (decrease) in cash	992,800
Beginning of year	90,895
End of year	<u>\$ 1,083,695</u>
Supplemental disclosures of cash flow information:	
Interest paid	<u>\$ 258,869</u>

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

Franklin Primary Health Center, Inc.

Notes to the Financial Statements November 30, 2014

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 eighteen facilities that provide medical, optometric, and dental services, as well as a mobile medical unit. 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, 2014, all Franklin’s assets were 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.

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 eighty-three (83) percent of gross receivables.

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 1 – Summary of Significant Accounting Policies (continued)

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 a 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, 2014, the Board had designated \$126,110 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 associated 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.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash in bank accounts and certificates of deposit.

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.

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 1 – Summary of Significant Accounting Policies (continued)

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 \$586,883 for the year ended November 30, 2014.

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, 2014, 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, 2011, 2012 and 2013 are subject to examination by the IRS, generally for three years after they were filed.

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, 2014, Franklin recognized expenses of \$109,902 related 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.

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 2 – Economic Dependency (continued)

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 at November 30, 2014:

Buildings and improvements	\$	11,468,746
Furniture and equipment		5,443,313
Construction in progress		1,760,962
Land		872,820
Total Property and Equipment		<u>19,545,841</u>
Less: Accumulated depreciation		<u>(8,334,417)</u>
Net book value	\$	<u><u>11,211,424</u></u>

Note 4 – Lines of Credit

At November 30, 2014, 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>
\$ 750,000	\$ 750,000	2.16%	9/12/2015	CD
\$ 299,168	\$ 500,000	9.00%	7/30/2015	Unsecured

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 5 – Long-Term Debt

Franklin had the following notes payable at November 30, 2014:

Note payable to a bank, interest at 3.95% per annum, monthly payments of \$4,346 principal and interest, matures in 2028, secured by building in Maysville (net book value of \$273,542 at year end)	\$ 560,265
Note payable to a bank, interest at 5.875% per annum, monthly payments of \$1,990 principal and interest, matures in 2016, secured by land in Mobile County (net book value of \$241,355 at year end)	109,990
Note payable to a bank, interest at 5.160% per annum, monthly payments of \$3,914 principal and interest, matures in 2017, unsecured	113,264
Less: Current portion	<u>(89,900)</u>
Total long-term debt	\$ <u><u>693,619</u></u>

Future principal payments are as follows:

Year	Mortgage Trustmark Bank	Business Loan SB&T Bank	Business Loan Compass Bank	Total
11/30/2015	\$ 27,390	\$ 15,992	\$ 42,041	\$ 85,422
11/30/2016	31,382	93,998	44,295	169,675
11/30/2017	32,662	-	26,928	59,590
11/30/2018	33,994	-	-	33,994
11/30/2019	434,837	-	-	434,837
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 560,265</u>	<u>\$ 109,990</u>	<u>113,264</u>	<u>\$ 783,518</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. The new facility, which secures the bonds, is the main service building at 1303 Martin Luther King, Jr. Avenue in Mobile, Alabama, and had a net book value at year end of \$3,981,443. The bond matures on August 7, 2023. Principal and interest payments are due monthly. The bonds were refinanced in August 2012 for a lower interest rate, which consists of a 1.54% fixed component and a floating component based on the LIBOR index.

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 6 – Bonds Payable (continued)

The following is a summary of bond principal payments:

<u>Year</u>	<u>Bond Payable</u>
11/30/2015	\$ 294,358
11/30/2016	307,881
11/30/2017	322,026
11/30/2018	336,819
11/30/2019	352,294
Thereafter	<u>1,469,620</u>
Total	\$ <u><u>3,082,998</u></u>

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 in compliance with the bond covenants.

Note 7 – Capital Leases

Franklin is the lessee of Electronic Health Records software under capital leases expiring in various years through 2016. The liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments. The assets are depreciated over their estimated productive lives. As these leased assets are considered to be construction in process, and have not yet been placed in service, depreciation related to these assets was zero for the year ended November 30, 2014.

Following is a summary of property held under capital leases:

Capital Leased Items	
Equipment for CIP	\$ 573,072
Less: Accumulated depreciation	<u>-</u>
Net book value	\$ <u><u>573,072</u></u>

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

Note 7 – Capital Leases (continued)

Minimum future lease payments under the capital leases as of November 30, 2014 are:

Future lease payments	
For the year ended November 30,	Total Payment
2015	\$ 85,121
2016	17,403
Total minimum lease payments	<u>102,524</u>
Less amount representing interest	(2,767)
Present value discount	(371)
Present value of minimum lease payments	<u>\$ 99,757</u>

Interest rates on capital leases vary from 4.39% to 8.65% 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. Present value discount rate used is 2.18%, which is the rate on the 10-year U.S. Treasury Bond at November 30, 2014.

Note 8 – Operating Leases

Franklin leases eight buildings, four storage units, three vehicles, and numerous pieces of office equipment, including copy machines and printers. Rental expense under these leases was \$397,407 for the year ended November 30, 2014. The leases all end by June 30, 2019. Most of these leases renew annually, and some are on month-to-month basis.

Minimum future rental payment under these operating leases:

For the years ended November 30,	
2015	\$ 350,175
2016	101,190
2017	91,200
2018	79,083
2019	<u>39,300</u>
Minimum future rental payments	<u>\$ 660,948</u>

Franklin Primary Health Center, Inc.

**Notes to the Financial Statements
November 30, 2014**

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>\$ 2,997</u>
Total	<u><u>\$ 2,997</u></u>

Note 10 - Advertising

Advertising costs are expensed as incurred. These costs totaled \$44,495 during the year ended November 30, 2014 and included newspaper ads, T.V. ads, sponsorships, donations, and Ryan White outreach services. They are included in community outreach expenses.

Note 11 – 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. Franklin is responsible for its share of costs related to this agreement.

Note 12 – Credit Risk

Franklin maintains its cash balances in various financial institutions in Alabama. At November 30, 2014, Franklin had \$24,636 in bank accounts in excess of federally insured limits.

Note 13 – Fundraising Expenses

Franklin conducts an annual golf tournament for fundraising purposes. Related expenses totaled \$11,206 for the year ended November 30, 2014.

Note 14 – Date of Management’s Review

Management has evaluated subsequent events through March 31, 2015, the date which the financial statements were available to be issued.

Other Reports

McKean & Associates, P.A.

Certified Public Accountants

Principals

Ann Broughton, CPA
Cindy B. Rathle, 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, 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 Franklin Primary Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of November 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Franklin Primary Health Center, Inc.'s internal control over financial reporting (internal control) to determine the audit 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 Franklin Primary Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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

Our consideration of the 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

McKean & Associates

March 31, 2015
Mobile, Alabama

McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle, CPA

Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Franklin Primary Health Center, Inc.'s ("Franklin") compliance 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, 2014. Franklin'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 each of Franklin'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 generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ABC Organization'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. However, our audit does not provide a legal determination of Franklin's compliance.

Opinion on Each Major Federal Program

In our opinion, Franklin complied, in all material respects, with the types of compliance 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 01-14 and 02-14. Our opinion on each major federal program is not modified with respect to this matter.

Franklin's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Franklin's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Franklin 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 of compliance, we considered Franklin's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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 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. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McKean & Associates

March 31, 2015
Mobile, Alabama

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenditures of Federal Awards
November 30, 2014**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant number or Pass-through entity identifying number	Expenditures
U.S. Dept of Health and Human Services			
<u>Direct:</u>			
Consolidated Health Center Cluster:			
Community Health Center 330 Grant	93.224	H80CS00099	\$ 8,653,206
Health Centers Grant for Homeless Populations	93.224	H80CS00099	514,188
Health Centers Grant/Residents of Public Housing	93.224	H80CS00099	359,824
Bay Minette Facility Renovations	93.224	H80CS00099	102,472
 Ryan White Part C Outpatient EIS Program	 93.918	 H76HA00082	 562,848
<u>Passed-Through Alabama Dept of Mental Health/ Mental Retardation, via Altapoint Health Systems, Inc.</u>			
Prevention and Treatment of Substance Abuse	93.959	FY 13-14	37,481
<u>Passed-Through United Way</u>			
HIV Care Formula Grants (Ryan White Part B)	93.917	X07HA00049	138,368
Total U.S. Dept of Health and Human Services			10,368,387
 U.S. Dept of Housing and Urban Development			
<u>Passed-Through Housing First, Inc.</u>			
Supportive Housing Program	14.235	AL0037L4C011205	71,174
Total U.S. Dept of Housing and Urban Dev.			71,174
 U.S. Centers for Disease Control			
<u>Passed-Through Alabama Dept of Public Health</u>			
Well Integrated Screening and Eval. for Women Across the Nation ("WISEWOMAN")	93.094	1U58DP004849-01 5U58DP004849-02	58,872 41,609
Total U.S. Centers for Disease Control			100,481
 Total Federal Expenditures			 \$ 10,540,043

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Expenditures of Federal Awards (continued)
November 30, 2014**

Notes to Schedule of Expenditures of Federal Awards

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.

FRANKLIN PRIMARY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs
November 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? no

Significant deficiencies identified not considered to be material weakness(es)? no

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: unmodified

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

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Findings and Questioned Costs (continued)
November 30, 2014**

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
- 93.224 Health Care for Migrant Workers
- 93.918 Ryan White Part C Outpatient EIS Program

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

\$ 300,000

Auditee qualified as low-risk auditee?

no

Section II – Financial Statement Findings

There are no financial statement findings for the Fiscal Year ended November 30, 2014.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Findings and Questioned Costs (continued)
November 30, 2014**

Section III – Federal Awards Findings and Questioned Costs

Item 01-14 CHC and Ryan White Part C Programs

Criteria

Auditee is to track federal interest in capital acquisitions made with federal dollars in accordance with Circular A-133 and grant requirements.

Condition

Auditee was unable to produce documentation supporting compliance with this requirement for the year ended November 30, 2014. As there were no disposals of capital assets during the year, it is unlikely the failure to track federal interest resulted in a failure to remit federal funds.

Cause

The staff member who performed this function during the year ended November 30, 2014 terminated employment with auditee during the year. The tracking mechanism used was therefore not readily available, and no other employee had begun to use or update it.

Effect

Auditee could make future disposals of capital assets and be unable to determine federal share, resulting in non-remittance of federal funds.

Recommendation

Assignment of responsibility of this task should be made. This control should not be left with just one person who understands how to implement it. Additional staff should be knowledgeable of how to maintain the tracker of federal interest. If needed, additional staff should be hired to perform this function.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Schedule of Findings and Questioned Costs (continued)
November 30, 2014**

Section III – Federal Awards Findings and Questioned Costs (continued)

Item 02-14 CHC and Ryan White Part C Programs

Criteria

Auditee is to verify whether vendors from whom purchases are made in excess of \$25,000 during a year, are not disbarred or suspended from federal contracts.

Condition

Auditee was unable to produce documentation supporting compliance with this requirement for two vendors with whom the auditee expended over \$25,000 during the year ended November 30, 2014.

Cause

The staff member who performed this function during the year ended November 30, 2014 terminated employment with during the year. The employee's responsibility toward this function was not reassigned to other staff.

Effect

Auditee could make purchases or enter into contracts with vendors which have been suspended or disbarred from federal contracts.

Recommendation

Assignment of responsibility for this task should be made very soon after the person responsible for it has terminated. This control should not be left with just one person who understands how to implement it. If needed, additional staff should be hired to perform this function.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Corrective Action Plan
November 30, 2014**

Reference	Action to be Taken	Action Date
Item 01-14 93.224, 93.918	<p>Auditee was unable to produce documentation proving compliance with the requirement to track federal interest in capital acquisitions made with federal dollars during the year ended November 30, 2014.</p> <p>Franklin is currently in the process of recruiting a CFO to help tag/label all capital acquisitions made with federal funds from the prior year and moving forward.</p>	On going.
Item 02-14 93.224, 93.918	<p>Auditee was unable to produce documentation proving compliance with the requirement to verify that vendors who do business with auditee in excess of \$25,000 during the year were not suspended or debarred from federal contracts.</p> <p>All department heads have been informed to check the appropriate website for suspended and debarred vendors before entering into contracts or making purchases in excess of \$25,000.00. They have been asked to maintain proof that the vendor has been verified.</p>	On going.

FRANKLIN PRIMARY HEALTH CENTER, INC.

**Summary Schedule of Prior Audit Findings
November 30, 2014**

Item 01-13

Auditee failed to track federal interest in capital acquisitions made with federal funds. This finding continues in the current year as finding 01-14.