

# Whatley Health Services, Inc.

## FINANCIAL STATEMENTS

November 30, 2014



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**Whatley Health Services, Inc.**  
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# REPORT



## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Whatley Health Services, Inc.  
Tuscaloosa, Alabama

We have audited the accompanying financial statements of Whatley Health Services, Inc. (the Corporation) which comprise the statement of financial position as of November 30, 2014, and the related statements of activities and changes in net assets, 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.

### **Auditors' 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. 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 Corporation'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 Corporation'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 Whatley Health Services, 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 basic financial statements of Whatley Health Services, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. 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 basic financial statements. Such information is the responsibility of Whatley Health Services, Inc.'s 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 basic 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 basic financial statements taken as a whole.

### *Other Reporting Required by Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of Whatley Health Services, 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 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* in considering Whatley Health Services, Inc.'s internal control over financial reporting and compliance.

*Carri Riggs & Ingram, L.L.C.*

Montgomery, Alabama  
March 27, 2015



# FINANCIAL STATEMENTS

**Whatley Health Services, Inc.**  
**Statement of Financial Position**

November 30,

2014

**Assets**

Current Assets

Cash and cash equivalents	\$	90,968
Accounts receivable, net		982,430
Grants and contracts receivable		117,661
Prepaid expenses		49,598
Other assets		1,700

Total current assets		1,242,357
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Property and equipment, net		7,831,576
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Total assets	\$	9,073,933
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**Liabilities and net assets**

Current Liabilities

Accounts payable	\$	459,367
Accrued payroll and related liabilities		280,868
Deferred revenue		51,200
Notes payable, current portion		111,194

Total current liabilities		902,629
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Operating line of credit		557,024
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Notes payable, less current portion		1,830,348
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Total liabilities		3,290,001
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Unrestricted net assets		5,783,932
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Total liabilities and net assets	\$	9,073,933
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*The accompanying notes are an integral part of these financial statements.*

**Whatley Health Services, Inc.**  
**Statement of Activities and Changes in Net Assets**

<i>Year ended November 30,</i>	<b>2014</b>
<b>Changes in unrestricted net assets</b>	
<b>Support and Revenue</b>	
Federal grants	\$ 6,651,274
Other grants and contracts	976,338
Patients' fees, net	4,927,301
340B program	1,811,879
Rental income	16,729
Interest and other	289,617
<hr/>	
Total support and revenue	14,673,138
<b>Expenses</b>	
Personnel	7,393,859
Fringe benefits	993,279
Contractual services - patient care	1,876,307
Contractual services - non-patient care	771,538
Supplies	422,762
Depreciation	662,844
Telecommunications and postage	326,288
Occupancy	254,841
Interest and bank charges	132,434
Travel and transportation	120,876
Legal and accounting	110,471
Insurance	45,553
Repairs and maintenance	50,700
Sanitation	41,797
Other expenses	51,684
Taxes and licenses	26,657
Dues and subscriptions	56,371
Outreach and promotion	28,397
Recruitment and retention	127,822
Training and education	22,411
Pharmacy expenses	754,872
Dispensing fees	49,561
Management fees	202,473
<hr/>	
Total expenses	14,523,797
<hr/>	
<b>Increase in net assets</b>	<b>149,341</b>
<b>Net assets, beginning of year</b>	<b>5,634,591</b>
<hr/>	
<b>Net assets, end of year</b>	<b>\$ 5,783,932</b>

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

**Whatley Health Services, Inc.**  
**Statement of Cash Flows**

<i>Year ended November 30,</i>	<b>2014</b>
<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 149,341
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	662,844
Change in operating assets and liabilities:	
Accounts receivable, net	(93,284)
Grants and contracts receivable	(35,640)
Prepaid expenses	(24,737)
Accounts payable	(299,322)
Accrued payroll and related liabilities	52,407
Deferred revenue	(8,400)
Net cash provided by operating activities	403,209
<b>Cash flows from investing activities:</b>	
Purchase of furniture and equipment	(357,414)
Net cash used in investing activities	(357,414)
<b>Cash flows from financing activities:</b>	
Proceeds from operating line of credit	72,927
Reduction in Notes and Capital Leases	(101,717)
Net cash used in financing activities	(28,790)
<b>Net increase in cash and cash equivalents</b>	<b>17,005</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>73,963</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 90,968</b>

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

**NOTE 1: NATURE OF OPERATIONS**

Whatley Health Services, Inc. (the Corporation) was incorporated in the State of Alabama on March 11, 1977, as a non-stock, non-profit corporation dedicated to the purpose of carrying out the delivery of primary health care services. The Corporation is principally supported with grants from the U.S. Department of Health and Human Services (HHS).

The Corporation requests funds from HHS in accordance with various grant agreements. All funds disbursed must be in compliance with the specific terms of the grant, as defined. HHS may, at its discretion, request reimbursement for expenses or returns of unexpended funds, or both, as a result of noncompliance by the Corporation with the terms of the grants. In addition, if the Corporation terminates its HHS grant activities, all unexpended funds are to be returned to HHS.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The financial statements of the Corporation have been prepared on the accrual basis of accounting, under which revenues are recognized in the period they are earned or unconditionally promised rather than when they are received and expenses are recognized in the period incurred rather than when paid.

***Financial Statement Presentation***

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily or permanently restricted net assets as of November 30, 2014. In addition, the Corporation is required to present a statement of cash flows.

***Use of Estimates***

The presentation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the allowance for adjustments related to grants and contracts receivable and accounts receivable.

***Cash and Cash Equivalents***

In presenting the statements of cash flows, cash and cash equivalents are defined as cash on hand and in liquid investments with original maturities of three months or less.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Grants and Contracts Receivable and Accounts Receivable***

Grants and Contracts Receivable represent amounts due to the Corporation under various supplemental grants and programs including the 340B Program.

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 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 \$3,187,151 which represents seventy-six (76) percent of gross receivables as of November 30, 2014.

***Third Party Reimbursements***

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

***Property and Equipment***

Property and equipment purchased by the Corporation are carried at historical cost. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives are usually five years for equipment, eight years for furniture, and twenty-five years for buildings. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment, with a unit price greater than \$5,000, acquired with HHS funds are considered to be owned by the Corporation 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, the Corporation may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of HHS.



## Whatley Health Services, Inc. Notes to Financial Statements

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

#### ***Services***

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

#### ***Deferred revenue***

Deferred revenue consists of rental income payments received in advance of the applicable rental period.

#### ***Income Taxes***

The Corporation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Internal Revenue Code. Additionally, the Corporation has been classified as a publicly supported Corporation that is not a private foundation under Section 509(a) of the Internal Revenue Code.

The Corporation follows the provisions of FASB ASC (Accounting Standards Codification) No. 740, Accounting for Uncertainty in Income Taxes. The Corporation has not recognized any respective liability for unrecognized tax benefits as it has no known tax positions that would subject the Corporation to any material income tax exposure. The tax years that remain subject to examination are the periods beginning on or after December 1, 2010 for all major tax jurisdictions.

#### ***Evaluation of Subsequent Events***

The Corporation has evaluated its financial statements for subsequent events through March 27, 2015, which is the date the financial statements were available to be issued.

#### ***Advertising***

Advertising costs are expensed as incurred. These costs are included in outreach and promotion expense.

#### ***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 Corporation. This right may be exercised only if certain conditions as outlined in the Policy Statement exist. No such conditions existed as of November 30, 2014.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Donated Materials and Services***

The Corporation 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. Various individuals, including board members, donate significant time to the Corporation, but these donations are not recognized in as much as these items do not meet the criteria required for recognition under accounting principles generally accepted in the United States of America.

**NOTE 3: ACCOUNTS RECEIVABLE**

Patient accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability. Allowances for uncollectible accounts are determined on the basis of loss experience in the accounts receivable listing, and current economic conditions. Specific patient accounts are written off when deemed uncollectible. As of November 30, 2014, carrying amounts were as follows:

<i>November 30,</i>	<b>2014</b>
Medicaid	\$ 542,558
Medicaid contractual allowance	(205,012)
Net medicaid	337,546
Private Insurance	539,272
Private insurance contractual allowance	(269,636)
Net private insurance	269,636
Other	81,542
Contractual allowance	-
Net other	81,542
Medicare	349,655
Medicare contractual allowance	(159,326)
Net medicare	190,329
Self Pay	2,656,553
Self Pay allowance	(2,553,176)
Net self pay	103,377
Net accounts receivable	\$ 982,430

**NOTE 4: NET PATIENT SERVICE REVENUE**

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** – Patient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Patient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare fiscal intermediary. Approximately 29% of the Corporation's net patient revenues were derived from Medicare beneficiaries in 2014.

**Medicaid** – Patient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. Patient services are reimbursed based on an established fee schedule. Annually, a copy of the Medicare cost report is submitted to the Medicaid agency to assist the agency in monitoring the program. Approximately 42% of the Corporation's net patient revenues were derived from Medicaid beneficiaries in 2014.

**Blue Cross Blue Shield** – Services rendered to Blue Cross Blue Shield subscribers are reimbursed based on predetermined contractual rates.

**Other** – The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**

**NOTE 5: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>November 30,</i>	<b>2014</b>
Land	\$ 474,693
Land improvements	34,469
Buildings and improvements	5,737,245
Buildings - capital lease	114,537
Leasehold improvements	1,913,709
Furniture and equipment	2,298,031
OHIT software	582,962
Construction in progress	1,715,825
	<b>12,871,471</b>
Less accumulated depreciation	<b>(5,039,895)</b>
	<b>\$ 7,831,576</b>

**NOTE 6: LINE OF CREDIT AND REFINANCING ACTIVITY**

The Corporation has an operating line of credit secured by its property at 2731 Martin Luther King Jr. Blvd. with a local bank. The limit on the operating line of credit is \$650,000. The line of credit has a variable interest rate, which was 3.25 percent as of November 30, 2014. As of November 30, 2014, funds drawn against the line were \$557,024. The line of credit matures August 25, 2015.

The Corporation is in the process of refinancing various debt obligations associated with its property and improvements located at 2731 Martin Luther King Blvd. in Tuscaloosa, Alabama and the Vernon and Hale County locations. Subsequent to year end, refinance terms were reached that provide for a non-bank qualified term loan for up to \$1,506,139 for the refinance of existing note payable and line of credit associated with the property and improvements located at 2731 Martin Luther King Blvd. in Tuscaloosa, Alabama and a taxable term loan up to \$977,831, for refinance of existing debt associated with the Vernon and Hale County locations. The total project is for \$2,483,970. The refinance terms also provides for a new \$500,000 operating line of credit.

Based on the terms of the refinancing activity, the operating line of credit has been presented as a long term obligation expected to be refinanced in the statement of financial position.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**

**NOTE 7: NOTES PAYABLE**

Notes payable at November 30, 2014 consists of the following:

<i>November 30,</i>	<b>2014</b>
West Blocton - note payable to a bank, due in monthly installments of \$1,877, interest at an annual rate of 6.25%, matures October 19, 2015, secured by modular unit.	\$ <b>19,896</b>
Hale County - note payable to a bank, due in monthly installments of \$4,538, interest at annual rate of 5.65%, matures October 31, 2018, secured by real estate.	<b>798,561</b>
Maude Whatley Medical/Maude Whatley Dental, due in monthly installments of \$7,376, interest at an annual rate of 4.75%, matures January 27, 2018, secured by real estate.	<b>934,446</b>
Sipsey - note payable to a bank, due in monthly installments of \$955, interest at an annual rate of 7.25%, matures December 5, 2015, secured by real estate.	<b>11,716</b>
Vernon - note payable to a bank, due in monthly installments of \$1,828, interest at an annual rate of 3.75%, matures March 10, 2017, secured by a real estate.	<b>176,923</b>
	<b>1,941,542</b>
Less current portion	<b>111,194</b>
<b>Total noncurrent portion of long term debt</b>	<b>\$ 1,830,348</b>

Certain notes payable require that the Corporation meet various debt covenants. Two such covenants require that the Corporation's net earnings before interest, depreciation and amortization be at least 1.25 of the current portion of long-term debt and interest expense, and another requires that total liabilities not exceed 1.25 times total tangible equity. As of November 30, 2014, the Corporation was in compliance with both debt covenants.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**

**NOTE 7: NOTES PAYABLE (CONTINUED)**

Future principal payments are as follows:

<i>November 30,</i>	<b>2014</b>
2015	\$ 111,194
2016	75,556
2017	211,271
2018	804,562
2019 and thereafter	738,959
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Total future principal payments	\$ 1,941,542

**NOTE 8: ECONOMIC DEPENDENCY**

The Corporation receives a substantial amount of its support from the Federal government. A significant reduction in the level of this support would have an adverse effect on the Corporation's programs and activities. Such funding is also subject to special audits, which could result in claims against the Corporation for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liability that might arise from such audits since the amounts, if any, cannot be determined at this date.

A substantial amount of patient service revenues are from third party reimbursement. Such amounts are subject to adjustment. The Corporation believes these adjustments will not be materially different than those reflected in these statements.

**NOTE 9: RETIREMENT PLAN**

The Corporation has a 403(b) retirement plan that covers all eligible employees. The amount contributed to the plan is two percent of eligible salaries and wages. During each fiscal year, the provision for the retirement expense was adequate. The expenses for the year ended November 30, 2014 amounted to \$42,282.

**NOTE 10: CHARITY CARE**

The Corporation provides care to patients who qualify under Federal guidelines and other policies of the Corporation at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statements of activities. For the year ended November 30, 2014, charity care amounted to \$4,938,472.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**

**NOTE 11: OPERATING LEASES**

The Corporation had operating leases, summarized as follows:

Lessor	Item	Period	Payment	Annual
City of York	Land	Monthly	\$ 300	\$ 3,600
West Blocton	Land	Monthly	300	3,600
Billy Blakeney	Space	Monthly	2,475	29,700
West Alabama Development	Space	Monthly	2,500	30,000

The leases with the City of York and Billy Blakeney are on month-to-month renewal terms. The lease with West Blocton maintains the same terms until it expires on June 1, 2019. The lease with West Alabama Development maintains the same terms until it expires on January 31, 2019.

The future minimum lease payments required under these operating leases at November 30, 2014 are as follows:

<i>November 30,</i>	<b>2014</b>
2015	\$ 59,700
2016	59,700
2017	59,700
2018	59,700
2019	19,850
<b>Total future minimum lease payments</b>	<b>\$ 258,650</b>

**NOTE 12: PROJECT EXPANSION**

A construction agreement for the Main Site Modernization and the Network Services Building was signed November 21, 2012. The expected cost of the expansion was \$2.8 million, with an estimated \$2 million of the cost being funded by grants. This project was completed in January 2014.

The Corporation was awarded a grant associated with its School-Based Health Centers Capital Program in the amount of \$500,000. During 2014, the Corporation was granted a no cost extension for the program through November 30, 2015. The Corporation was also awarded a grant associated with the Facility Improvements Grant Program in the amount of \$250,000. This grant is for the period ended November 30, 2015.

## Whatley Health Services, Inc. Notes to Financial Statements

### NOTE 13: RELATED PARTY TRANSACTIONS

The Corporation has a collaborative agreement with three other health centers in Alabama (Franklin Primary Health Center, Inc., Health Services, Inc., and Rural Health Services, Inc.) in order to apply for and receive technological grants. Alabama Health Care Consortium, LLC (the Consortium) was established in order to share resources and costs associated with the implementation of new medical records software. The Corporation's Chief Executive Officer serves as a member of the Consortium's governing board. There were no financial transactions between the Corporation and the Consortium for the year ended November 30, 2014. No amounts were due from or to the Consortium as of November 30, 2014.

A member of the Corporation's Board of Directors also serves as Chief Executive Officer of Community Service Programs (CSP). The Corporation provides medical and dental services for CSP's Headstart program. These services are provided on the same fee scale as all services provided by the Corporation.

During the year ended November 30, 2012, CSP made a deposit of \$75,000 against future rents for space in the Hale County Facility. At November 30, 2014, \$51,200 of this was still unearned. The space is rented to CSP at the rate of \$700 per month.

The Corporation provides contract employee services to Mednet West on an as needed basis. The Chief Executive Officer of the Corporation also serves on the Board of Directors of Mednet West.

### NOTE 14: FUNCTIONAL EXPENSES

The Corporation's purpose is carrying out the delivery of primary health care services. Expenses related to providing these services are summarized as follows:

<i>Year ended November 30,</i>	<b>2014</b>
Medical	\$ 9,958,754
Dental	1,390,636
HIV/AIDS	443,750
340B program	853,019
Administration	1,877,638
<b>Total functional expenses</b>	<b>\$ 14,523,797</b>

### NOTE 15: CREDIT RISK

The Corporation maintains its cash balances in several financial institutions in Alabama. These cash balances are protected to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of November 30, 2014, no cash balances exceeded the federally insured deposit limit.



## **SUPPLEMENTARY INFORMATION**

**Whatley Health Services, Inc.**  
**Schedule of Expenditures of Federal Awards**

*Year ended November 30,*

**2014**

<b>Federal Grantor</b>		<b>Federal CFDA Number</b>	<b>Grant/Award Number</b>	<b>Federal Expenditures</b>
<b>Direct Awards</b>				
U.S. Department of Health and Human Services	Health Center Cluster	93.224	H80CS00094-12-07	\$ <b>834,291</b>
U.S. Department of Health and Human Services	Health Center Cluster	93.224	H80CS00094-13-05	<b>5,347,897</b>
U.S. Department of Health and Human Services	Ryan White Title III HIV Capacity Development	93.918	P06HA26558-01-02	<b>85,049</b>
U.S. Department of Health and Human Services	Ryan White Part C Outpatient EIS Program	93.918	H76HA00595-14-03	<b>80,512</b>
U.S. Department of Health and Human Services	Ryan White Part C Outpatient EIS Program	93.918	H76HA00595-15-00	<b>303,525</b>
<b>Total expenditures of federal awards</b>				<b>\$ 6,651,274</b>



**Whatley Health Services, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**

**NOTE 1: SCOPE OF AUDIT PURSUANT TO OMB A-133 AND THE SINGLE AUDIT ACT**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Whatley Health Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT AUDITORS' 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  
Whatley Health Services, Inc.

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 Whatley Health Services, Inc., which comprise the statement of financial position as of November 30, 2014, and the related statements of activities and 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 March 27, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Whatley Health Services, 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, Whatley Health Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 a 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. 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. 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.

**INDEPENDENT AUDITORS' 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* (CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Whatley Health Services, Inc.'s financial statements are free from 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.

*Carr, Riggs & Ingram, L.L.C.*

Montgomery, Alabama  
March 27, 2015

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

Board of Directors  
Whatley Health Services, Inc.

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

We have audited Whatley Health Services, Inc.'s 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 Whatley Health Services, Inc.'s major federal programs for the year ended November 30, 2014. Whatley Health Services, 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, regulation, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Whatley Health Services, 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 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 Whatley Health Services, 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. However, our audit does not provide a legal determination of Whatley Health Services, Inc.'s compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

**Basis for Qualified Opinion on Consolidated Health Centers Program**

As described in item 2014-01 in the accompanying schedule of findings and questions costs, Whatley Health Services, Inc. did not comply with requirements regarding program income that are applicable to its Health Center Cluster Program, CFDA 93.224. Compliance with such requirements is necessary, in our opinion, for Whatley Health Services, Inc. to comply with requirements applicable to that program.

**Qualified Opinion on Consolidated Health Centers Program**

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, Whatley Health Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Health Center Cluster Program CFDA 93.224 for the year ended November 30, 2014.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, Whatley Health Services, Inc. complied with 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended November 30, 2014.

**Other Matters**

Whatley Health Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Whatley Health Services, Inc.'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 Whatley Health Services, 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 of compliance, we considered Whatley Health Services, Inc.'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 Whatley Health Services, Inc.'s internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

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 significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

*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.

**Other Matters**

Whatley Health Services, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Whatley Health Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Case, Riggs & Ingram, L.L.C.*

Montgomery, Alabama  
March 27, 2015

**Whatley Health Services, Inc.**  
**Schedule of Findings and Questioned Costs**

**Section 1 - Summary of Auditors' Results**

**Financial Statements**

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:

Material weakness identified?	_____	Yes	_____	X	_____	No
Significant deficiency identified not considered to be a material weakness?	_____	Yes	_____	X	_____	No
Noncompliance material to financial statements noted?	_____	Yes	_____	X	_____	No

**Federal Awards**

Internal control over major programs:

Material weakness identified?	_____	X	_____	Yes	_____	No
Significant deficiency identified not considered to be a material weakness?	_____	Yes	_____	X	_____	No

Type of auditor's report issued on compliance for major programs: *qualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____	X	_____	Yes	_____	No
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**Identification of Major Programs**

CFDA Number	Name of Federal Program or Cluster
93.224	Health Center Cluster
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?	_____	Yes	_____	X	_____	No
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## Whatley Health Services, Inc. Schedule of Findings and Questioned Costs

### Section II – Financial Statement Findings

None noted.

### Section III – Federal Awards Findings and Questioned Costs

#### Item 2014-01

93.224 – Consolidated Health Centers

#### Criteria

Health centers are required to have a corresponding schedule of discounts applied and adjusted based on the patient's ability to pay (42 USC 254b(k)(3)(G)(i)). The patient's ability to pay is based on the official poverty guideline, as revised annual by HHS (42 CFR sections 51c.107(b)(5), 56.108(b)(5), and 56.303(f)).

#### Condition

Out of 44 encounters tested, 6 instances were missing recent (within 1 year of date of service) documentation evidencing income when it should have been present. There were 8 instances where the sliding fee was not calculated and applied. There were 6 instances where the sliding fee was calculated correctly, but was not applied.

#### Cause

Failure to obtain the required documentation was due to improper staff training or failure to properly monitor the process. Errors in calculating and/or applying the sliding fee discounts were primarily due to functionality of NextGen software (6) and due to staff having difficulties using the NextGen software (8).

It is worth noting that the majority of the exceptions occurred prior to the issue date of the previous auditor report (July 18, 2014) and before full implementation of management's corrective action plan.

#### Effect

The clinic could be incorrectly billing for services and maintaining customer account balances at incorrect amounts.

#### Recommendation

Staff should make every effort to obtain documentation of patient income in accordance with internal policies and procedures. Patients should be billed full billing rates for all services until all documentation is received. Additional staff training, focusing on software familiarization (possibly coordinated with the manufacturer), would be helpful.

#### Views of Responsible Officials

Management agrees with the finding and has provided a corrective action plan on page 25 of this report.



## Whatley Health Services, Inc. Corrective Action Plan

### **Item 2014-01**

Patients are now being charged full price for all services if income verification is not received. Patients are being informed to pay what they can at TOS (minimum \$20 medical and \$50 for dental) and the remaining balance is to be billed to them. Patients are encouraged to bring in income verification within 24 hours of appointment so as not to be billed at full price if eligible for sliding fee discount. Patients that are coming for second visit without income verification will either pay full price for services up front or will not be seen until income verification is provided. All sites are being audited in this area on a monthly basis until 100% compliance is obtained. All employees have been required to go through additional training on how this process works. Employees found not adhering to this process will go through the disciplinary process of verbal, then written, then termination for offenses. The audit includes verification of correct income calculation along with income verification document being scanned into chart.



**Whatley Health Services, Inc.  
Summary of Prior Year Audit Findings**

**Item 01-13**

Out of 43 encounters tested, 4 were missing recent (within 1 year of date of service) documentation evidencing income when it should have been present, 5 had the wrong amount of sliding fee discount applied, and 1 had the wrong amount charged for a service.

**Current Status**

This finding was not corrected in the current year.



**REQUIRED COMMUNICATIONS**

March 27, 2015

Board of Directors  
Whatley Health Services, Inc.

We are pleased to present the results of our audit of the 2014 financial statements of the Whatley Health Services, Inc. (the Corporation).

This report to the Board of Directors and management summarizes our audit, the report issued and various analyses and observations related to the Corporation's accounting and reporting. The document also contains the communications required by our professional standards.

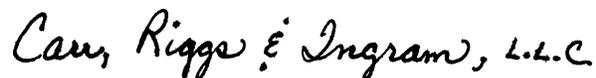
Our audit was designed, primarily, to express an opinion on the Corporation's 2014 financial statements. We considered the Corporation's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of Whatley Health Services, Inc. (the Corporation).

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

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

We appreciate this opportunity to work with you. If you have any questions or comments, please contact us at 334-271-6678.

Very truly yours,

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." in a cursive script.

Montgomery, Alabama

## Required Communications

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Corporation. Specifically, we planned and performed our audit to:

- Perform audit services in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contain in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, U.S. Office of Management and Budget (OMB) Circular A-133 “Audits of States, Local Governments, and Non-Profit Organizations” in order to express an opinion on the Corporation's financial statements for the year ended November 30, 2014 and to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Governmental Auditing Standards*, and to express an opinion on compliance with requirements applicable to each major federal program and express an opinion internal control over compliance with types of compliance requirements described in OMB A-133 Compliance Supplement.
- Communicate directly with the Board of Directors and management regarding the results of our procedures;
- Address with the Board of Directors and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Board of Directors and management; and
- Other audit-related projects as they arise and upon request.

## Required Communications

We have audited the financial statements of Whatley Health Services, Inc. for the year ended November 30, 2014, and have issued our report thereon dated March 27, 2015. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<b>Auditor's responsibility under Generally Accepted Auditing Standards</b>	<p>As stated in our engagement letter dated January 19, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and to express an opinion on compliance and internal control over compliance in accordance with OMB A-133. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<b>Client's responsibility</b>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<b>Planned scope and timing of the audit</b>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<b>Management judgments and accounting estimates</b>	<p>Please see the following section titled "Accounting Policies, Judgments &amp; Sensitive Estimates &amp; CRI Comments on Quality."</p>
<b>Potential effect on the financial statements of any significant risks and exposures</b>	<p>No such risks or exposures were noted.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<p><b>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditor's judgment about the quality of accounting principles</b></p>	<p>Please refer to the notes to the financial statements.</p>
<p><b>Significant difficulties encountered in the audit</b></p>	<p>None.</p>
<p><b>Disagreements with management</b></p>	<p>None.</p>
<p><b>Other findings or issues</b></p>	<p>None.</p>
<p><b>Matters arising from the audit that were discussed with, or the subject of correspondence with, management</b></p>	<p>None.</p>
<p><b>Corrected and uncorrected misstatements</b></p>	<p>Please see the following section titled "Summary of Audit Adjustments."</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITOR'S RESPONSE
<b>Major issues discussed with management prior to retention</b>	None.
<b>Consultations with other accountants</b>	None of which we are aware.
<b>Written representations</b> <i>We have requested certain representations from management that are included in the management representation letter dated March 27, 2015.</i>	
<b>Internal control deficiencies</b>	See "Supplementary Information".
<b>Fraud and illegal acts</b>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<b>Other information in documents containing audited financial statements</b>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> <li>• Such information is materially inconsistent with the financial statements; and</li> <li>• We believe such information represents a material misstatement of fact.</li> </ul> <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

## Accounting Policies, Judgments & Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Corporation's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Board of Directors may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Depreciation of Property and Equipment, Net	The Corporation depreciates assets over the expected remaining useful life of the individual asset.	X	Judgments in this area relate to the estimate of the remaining useful life of the asset.	The Corporation's policies are in accordance with all applicable accounting guidelines.
Allowance for Adjustment for Accounts Receivable and Grants and Contracts Receivable	The Corporation records an allowance for uncollectible amounts. This allowance is estimated based on estimated contractual adjustments and the Corporation's experience with respective third party payers.	X	Judgments in this area relate to the estimate of amounts that will be uncollectible.	The Corporation's policies are in accordance with all applicable accounting guidelines.

## Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the Corporation and amounts that we believe are required to be recorded under the modified cash basis of accounting. Those adjustments are either recorded (corrected) by the Corporation or passed (uncorrected). All such proposed adjustments were recorded by the Corporation. In addition, none of the proposed adjustments were material, either individually or in the aggregate, to the financial statements taken as a whole.

### QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Corporation's operating environment that has been identified as playing a significant role in the Corporation's operations or viability.
- Whether the difference affects compliance with regulatory requirements.