

Whatley Health Services, Inc.
Financial Statements

November 30, 2012 and 2011

Federal Employer Identification Number 63-0727781

Whatley Health Services, Inc.

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McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
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Of Counsel
E.W. McKean, Jr., CPA

Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Whatley Health Services, Inc., (a non-profit organization) as of November 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the fiscal years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whatley Health Services, Inc., as of November 30, 2012 and 2011, and the changes in its net assets and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2013 on our consideration of Whatley Health Services, Inc.'s internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McKean & Associates

April 12, 2013
Mobile, Alabama

Whatley Health Services, Inc.
Statements of Financial Position

<u>November 30,</u>		2012		2011
	Assets			
Current Assets				
Cash	\$	95,944	\$	293,442
Grants and Contracts Receivable		4,281		73,738
Accounts Receivable, net		575,300		842,572
Prepaid Expenses		37,080		32,450
Total Current Assets		712,605		1,242,202
Property and Equipment, net		7,998,235		6,210,334
Deferred Interest		-		1,033
		7,998,235		6,211,367
	Total Assets	\$ 8,710,840	\$	7,453,569
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable	\$	574,928	\$	427,826
Accrued Payroll and Related Payables		256,483		440,446
Deferred Revenue		145,859		154,342
Operating Line of Credit		550,000		647,500
Notes Payable, current portion		103,809		348,894
Capital Lease Payable		6,270		18,809
Total Current Liabilities		1,637,349		2,037,817
Notes Payable, less current portion		1,421,901		1,397,733
Capital Lease Payable, less current portion		-		6,270
		1,421,901		1,404,003
	Total Liabilities	3,059,250		3,441,820
Net Assets				
Restricted		5,651,590		4,011,749
	Total Liabilities and Net Assets	\$ 8,710,840	\$	7,453,569

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

Whatley Health Services, Inc.
Statements of Activities

<u>For the years ended November 30,</u>	<u>2012</u>	<u>2011</u>
Support and Revenues		
Federal Grants	\$ 7,347,080	\$ 5,943,147
Other Grants and Contracts	1,101,646	1,133,631
Patients' Fees, net	4,328,929	4,519,791
Rental Income	14,257	8,203
Interest and Other	719,326	831,631
	<u>13,511,238</u>	<u>12,436,403</u>
Expenses		
Medical	7,642,668	7,995,281
Dental	1,398,602	1,567,498
HIV/AIDs	460,777	494,086
Administrative	2,369,350	2,163,077
Loss on disposal of asset	-	21,172
	<u>11,871,397</u>	<u>12,241,114</u>
Change in Net Assets	1,639,841	195,289
Net Assets, Beginning of Year	<u>4,011,749</u>	<u>3,816,460</u>
Net Assets, End of Year	<u>\$ 5,651,590</u>	<u>\$ 4,011,749</u>

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

Whatley Health Services, Inc.
Statements of Cash Flows

<u>For the years ended November 30,</u>	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 1,639,841	\$ 195,295
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	611,973	534,410
(Gain)/Loss on disposal of asset	-	21,172
(Increase) Decrease in operating assets		
Grants and Contracts Receivable	69,457	65,568
Accounts Receivable	267,272	(237,576)
Prepaid Expenses	(4,630)	5,916
Deferred Interest	1,033	3,135
Investment in certificate of deposit	-	106,595
Increase (Decrease) in operating liabilities		
Accounts Payable	147,102	(289,904)
Accrued Payroll and Related Payables	(183,963)	7,483
Deferred Support	(8,483)	154,342
Net cash flows from operating activities	<u>2,539,603</u>	<u>566,436</u>
Cash Flows from Investing Activities		
Sale of capital assets	-	24,326
Capital Acquisitions	(2,399,875)	(1,589,018)
Net cash flows from investing activities	<u>(2,399,875)</u>	<u>(1,564,692)</u>
Cash Flows from Financing Activities		
Proceeds from Notes	-	1,025,786
Reduction in Notes and Capital Leases	(337,226)	(213,229)
Net cash flows from financing activities	<u>(337,226)</u>	<u>812,557</u>
Net Change in Cash	(197,498)	(185,699)
Cash, beginning of year	<u>293,442</u>	<u>479,141</u>
Cash, end of year	<u>\$ 95,944</u>	<u>\$ 293,442</u>
Supplemental Information		
Interest Paid	<u>\$ 102,418</u>	<u>\$ 124,410</u>

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

Whatley Health Services, Inc
Statements of Functional Expenses
For the Year ended November 30, 2012
(With comparative totals for 2011)

<u>Category</u>	<u>Medical</u>		<u>Dental</u>		<u>HIV/AIDs</u>		<u>Administration</u>		<u>Total</u>	<u>Total</u>		
									<u>11/30/2012</u>	<u>11/30/2011</u>		
Salaries and Wages	\$	4,146,805	\$	807,385	\$	242,365	\$	1,073,326	\$	6,269,881	\$	6,386,708
Contractual Services		1,513,261		127,468		81,023		130,977		1,852,729		1,943,408
Fringe Benefits		632,571		122,054		37,449		222,429		1,014,503		1,019,313
Depreciation		340,467		56,079		493		238,466		635,505		534,410
Supplies		421,025		119,107		33,716		38,125		611,973		944,906
Telephone and Postage		182,792		34,580		1,611		105,997		324,980		292,098
Occupancy		85,166		40,170		1,655		71,092		198,083		170,197
Other Expenses		11,899		6,868		-		140,578		159,345		166,089
Travel and Transportation		29,054		3,373		54,073		53,002		139,502		135,076
Interest and Bank Charges		34,940		54,252		-		36,623		125,815		122,805
Legal and Accounting		-		-		-		118,428		118,428		88,115
Recruitment and Retention		106,213		697		-		1,948		108,858		44,564
Repairs and Maintenance		38,186		11,268		-		12,615		62,069		89,545
Rent		41,924		-		-		9,996		51,920		58,646
Insurance		14,803		6,465		-		26,396		47,664		46,673
Training and Education		8,835		3,173		8,392		20,296		40,696		28,892
Outreach and Promotion		3,962		1,250		-		23,916		29,128		46,768
Sanitation		21,108		2,673		-		7,844		31,625		44,790
Taxes and Licenses		8,063		1,690		-		14,941		24,694		27,497
Dues and Subscriptions		1,594		50		-		22,355		23,999		29,443
Total	\$	7,642,668	\$	1,398,602	\$	460,777	\$	2,369,350	\$	11,871,397	\$	12,219,943

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

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Whatley Health Services, Inc. (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.

The Corporation 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 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.

Basis of Accounting

These financial statements are presented on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recorded when incurred.

Basis of Presentation

The Corporation's financial statements are presented in accordance with professional standards, which require information regarding its financial position and its activities be presented according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At November 30, 2012 and 2011, all of the Corporation's assets are unrestricted for the purpose of providing primary health care services.

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.

Cash and Cash Equivalents

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

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.

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

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 eighty (80) percent and seventy one (71) percent of gross receivables for the years ended November 30, 2012 and 2011, respectively.

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 items are presented at cost less accumulated depreciation calculated using the straight-line method. Generally, equipment is depreciated over five years, furniture over eight years and buildings over twenty-five years.

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.

Income Taxes

The Corporation is a not-for-profit organization that is exempt from Federal income taxes pursuant to section 501(c) (3) of the Internal Revenue Code, as amended.

The Corporation 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 than likely than not the position will be sustained upon examination by taxing authorities. As of November 30, 2012, Management determined the Corporation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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

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.

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies (continued)

Operating Fund

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

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

Advertising

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

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. No such conditions existed as of November 30, 2012 or 2011.

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 2 – Accounts Receivable

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

	<u>2012</u>	<u>2011</u>
Accounts Receivable - Medicaid	\$ 495,784	\$ 529,089
Medicaid contractual allowance	<u>(247,892)</u>	<u>(238,090)</u>
	<u>247,892</u>	<u>290,999</u>
Accounts Receivable - Private Insurance	251,953	237,441
Commercial contractual allowance	<u>(189,847)</u>	<u>(179,287)</u>
	<u>62,106</u>	<u>58,154</u>
Accounts Receivable - Other	11,363	102,083
Contractual allowance - Other	<u>(1,129)</u>	<u>(8,608)</u>
	<u>10,234</u>	<u>93,474</u>
Accounts Receivable - Medicare	272,430	340,594
Medicare contractual allowance	<u>(108,972)</u>	<u>(153,267)</u>
	<u>163,458</u>	<u>187,327</u>
Accounts Receivable - Self Pay	1,832,758	1,694,274
Self pay contractual allowance	<u>(1,741,149)</u>	<u>(1,481,656)</u>
	<u>91,609</u>	<u>212,618</u>
Net Accounts Receivable	\$ <u><u>575,300</u></u>	\$ <u><u>842,572</u></u>

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 3 – Line of Credit

The Corporation has an operating line of credit secured by accounts receivable with Wells Fargo Bank. The limit on the line is \$650,000. The current interest rate is the London Interbank Lending Rate (LIBOR) plus 2.5 percent. As of November 30, 2012 and 2011, funds drawn against the line were \$550,000 and \$647,500, respectively. The Corporation is required to pay down the outstanding balance to a maximum of \$100 for 30 consecutive days annually.

The Corporation obtained a line of credit with Wells Fargo Bank for the construction of a building in Hale County, Alabama during 2012. The limit on the line was \$935,000. On the conversion date of November 1, 2012, it was required the principal be paid down to \$550,000, at which time the note would require 120 payments of \$4,538. The interest rate was the Bank's Prime Rate plus 1 percent. At the conversion date, the interest rate would be 5.65%.

This line of credit was not paid down to \$550,000 on the conversion date. Subsequent to November 30, 2012, this line of credit was renegotiated and converted to a note maturing October 31, 2018.

Note 4 – 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 that reflected in these statements.

Note 5 - Commitments

The Corporation has formed a collaborative agreement, Alabama Health Care Consortium, LLC, 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. This network was established in order to share resources and costs associated with the implementation of new medical records software. The Corporation's allocation of revenue, costs, and assets is 27.0141%.

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 6 – Property and Equipment

Property and equipment consist of the following:

November 30, 2012

Item	Cost	Accumulated Depreciation	NBV
Land and Improvements	\$ 509,161	\$ 83,912	\$ 425,249
Buildings and Improvements	5,895,988	1,772,135	4,123,853
Buildings - Capital Lease	114,537	38,656	75,881
Leasehold Improvements	104,607	51,718	52,889
Furniture and Equipment	2,262,683	1,610,218	652,465
OHIT Software	505,008	110,769	394,239
Construction in Progress	<u>2,273,659</u>	<u>-</u>	<u>2,273,659</u>
Total	\$ <u>11,665,643</u>	\$ <u>3,667,408</u>	\$ <u>7,998,235</u>

November 30, 2011

Item	Cost	Accumulated Depreciation	Net
Land and Improvements	\$ 509,161	\$ 78,512	\$ 430,649
Buildings and Improvements	5,607,591	1,381,422	4,226,169
Buildings - Capital Lease	114,537	32,929	81,608
Leasehold Improvements	508,655	167,216	341,439
Furniture and Equipment	1,969,394	1,319,226	650,168
OHIT Software	404,400	52,597	351,803
Construction in Progress	<u>128,498</u>	<u>-</u>	<u>128,498</u>
Total	\$ <u>9,242,236</u>	\$ <u>3,031,902</u>	\$ <u>6,210,334</u>

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 7 – Notes Payable

Long-term debt at November 30, 2012 consists of the following:

West Blocton - note payable to a bank, due in monthly installments of \$1,887, interest at an annual rate of 6.25%, matures 2015, secured by modular unit	\$ 59,991
Hale County - note payable to a bank, due in monthly installments of \$4,538 with a maturity date of 2018, interest at an annual rate of Prime+1 with a 5% floor, secured by real estate	825,082
Dental Construction - note payable to a bank, due in monthly installments of \$3,631, interest at an annual rate of 6.85%, matures 2016, secured by real estate	372,353
Sipsey - note payable to a bank, due in monthly installments of \$1,168, interest at an annual rate of 7.25%, matures 2015, secured by real estate	36,118
Mobile Health Unit - note payable to a bank, due in monthly installments of \$4,574, interest at an annual rate of 6.36%, matures 2013, secured by mobile unit	25,983
Vernon - note payable to a bank, due in monthly installments of \$1,828, interest at an annual rate of 3.75%, matures 2017, secured by real estate	<u>206,183</u>
	1,525,710
Less current portion	<u>103,809</u>
	<u>\$ 1,421,901</u>

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 7 – Notes Payable (continued)

Interest expense incurred on notes payable for the year ended November 30, 2012 was:

Total Payments	\$	439,644
Interest		<u>102,418</u>
Net Principal Amount	\$	<u><u>337,226</u></u>

Future principal payments are:

Future Principal Payments		
11/30/2013	\$	653,809
11/30/2014		82,520
11/30/2015		83,383
11/30/2016		344,226
11/30/2017		16,491
Thereafter		<u>750,274</u>
	\$	<u><u>1,930,703</u></u>

Note 8 – Capital Lease Payable

The Corporation financed a facility in York, Alabama through a capital lease arrangement. The arrangement requires 84 monthly payments in the amount of \$1,567, which includes principal and interest. The corresponding interest is recorded in the deferred account. The interest rate is 9 percent and the interest expense incurred during the years ended November 30, 2012 and 2011 was \$2,792 and \$5,830, respectively.

Future payments are presented below.

		Payment		Interest
November 30, 2013	\$	6,270	\$	1,033
November 30, 2014		<u>-</u>		<u> </u>
	\$	<u><u>6,270</u></u>	\$	<u><u>1,033</u></u>

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 9 – Reclassifications

Certain prior year data has been reclassified to present such amounts consistent with the current year's presentation.

Note 10 – 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 years ended November 30, 2012 and 2011 amount to \$33,118 and \$37,534, respectively.

Note 11 – 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 years ended November 30, 2012 and 2011, charity care amounted to \$4,066,443 and \$4,564,428, respectively.

Note 12 – Operating Leases

As of November 30, 2012, the Corporation had seven operating leases, as summarized below.

Lessor	Item	Period	Payment
Carmelita Bivens	Space	Monthly	\$ 833
City of York	Land	Monthly	\$ 300
West Blocton	Land	Monthly	\$ 300
Billy Blakeney	Space	Monthly	\$ 2,475

Note 13 – Project Expansion

The Corporation completed the project expansion for Hale County, Alabama in January 2012. A construction agreement for the Main Site Modernization and the Network Services Building was signed November 21, 2011. The expected cost of this expansion is \$2.8 million, with an estimated \$2 million of the cost being funded by grants.

Whatley Health Services, Inc.
Notes to the Financial Statements

November 30, 2012 and 2011

Note 14 – Related Party Transactions

Whatley Health Services provides medical and dental services for the area Headstart program. These services are provided on the same fee scale as all services provided by the Organization. Headstart is a program provided by Community Service Programs (CSP) whose chief executive officer is serving on Whatley's board of directors.

During the year ended November 30, 2011, Community Service Programs (CSP) made a deposit of \$75,000 against future rents for space in the Hale County facility. The space is expected to be available for occupancy in early 2012. At that time, a contract will be written between the parties.

Whatley Health Services provides contract employee services to Mednet West on an as needed basis. The chief executive officer of Whatley serves on the board of directors of Mednet West.

Note 15 – Credit Risk

The Corporation maintains its cash balances in several financial institutions in Alabama. As of November 30, 2012, no cash in bank balance exceeded the federally insured deposit limit.

Note 16 – Subsequent Events

Management has evaluated subsequent events through April 12, 2013, the date the financial statements were available to be issued.

Whatley Health Services, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended November 30, 2012

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Support</u>	<u>Non-Federal Revenues</u>	<u>Federal Expenditures</u>	<u>Non-Federal Expenditures</u>
Major						
HHS	93.703	H2LCS18151	\$ 110,194	\$ -	\$ 110,194	\$ -
HHS	93.224	H80CS00094	4,781,819	6,164,158	10,945,977	461,755
Total Major			<u>4,892,013</u>	<u>6,164,158</u>	<u>11,056,171</u>	<u>461,755</u>
Non-Major						
HHS	93.526	C8ACS21356	2,013,628	-	2,013,628	-
HHS	93.918	H76HA00595-11	134,750	-	134,750	-
HHS	93.918	H76HA00595-13	269,500	-	269,500	-
ARC	23.002	AL165512010	37,189	-	37,189	-
Total Non-Major			<u>2,455,067</u>	<u>-</u>	<u>2,455,067</u>	<u>-</u>
Total Awards			\$ <u>7,347,080</u>	\$ <u>6,164,158</u>	\$ <u>13,511,238</u>	\$ <u>461,755</u>

Notes to Schedule of Expenditures of Federal Awards

Note A: Expenses per this schedule are based on total outlays as summarized below.

Total Expenses per Statement of Activities	\$ 11,871,397
Depreciation Expense	(635,505)
Capital Acquisitions (net of capital obligation) per Statement of Cash Flows	2,399,875
Reduction in Financing Obligations per Statement of Cash Flows	<u>337,226</u>
Total Outlays	<u>\$ 13,972,993</u>

Note B: 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 amounts presented in, or used in the preparation of, the basic financial statements.

Other Reports

McKean & Associates, P.A.

Certified Public Accountants

Principals
Ann Broughton, CPA
Cindy B. Rathle

Of Counsel
E.W. McKean, Jr. CPA

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of Whatley Health Services, Inc., as of and for the year ended November 30, 2012, and have issued our report thereon, dated April 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Whatley Health Services, 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.

Board of Directors
Whatley Health Services, Inc.
Page 2

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McKean & Associates

April 12, 2013
Mobile, Alabama

McKean & Associates, P.A.

Certified Public Accountants

Principals

Ann Broughton, CPA
Cindy B. Rathle

Of Counsel

E.W. McKean, Jr., CPA

**Independent Auditor's Report on Compliance with
Requirements that could have a Direct and Material Effect on
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

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

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Whatley Health Services, Inc.'s management. Our responsibility is to express an opinion on Whatley Health Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, 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. Our audit does not provide a legal determination on Whatley Health Services, Inc.'s compliance with those requirements.

As described in item 01-21 in the accompanying schedule of findings and questioned costs, Whatley Health Services, Inc. did not comply with requirements regarding program income that are applicable to its Health Center Cluster Program. Compliance with such requirements is necessary, in our opinion, for Whatley Health Services, inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding 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 each of its major federal programs for the year ended November 30, 2012.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness..

A deficiency in internal control over compliance 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, 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 considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 01-12 to be material weaknesses.

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

Whatley Health Services, Inc.'s responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Whatley Health Services, Inc.'s responses and, accordingly, we express no opinion on the responses.

Board of Directors
Whatley Health Services, Inc.
Page 3

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

McKean & Associates

April 12, 2013
Mobile, Alabama

Whatley Health Services, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	_____ x _____ no
Significant deficiencies identified that are not considered to be a material weakness(es)?	_____ yes	_____ x _____ none reported
Noncompliance material to financial statements noted?	_____ yes	_____ x _____ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ x _____ yes	_____ _____ no
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ yes	_____ x _____ none reported

Type of auditors' 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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Whatley Health Services, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended November 30, 2012

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	Health Center Cluster
93.703	American Recovery Reinvestment Act

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

Auditee qualified as low-risk auditee? _____yes x no

Section II – Financial Statement Findings

There are no financial statement findings for the fiscal year ended November 30, 2012.

Whatley Health Services, Inc.
Schedule of Findings and Questioned Costs
November 30, 2012

Section III – Federal Awards Findings and Questioned Costs

Item 01-12

93.224– Health Center Cluster

Criteria

Income verification was not performed in ten patient files selected for testing. These selected patients received the sliding fee discount, when they should not have. These patients were not charged the correct billing rates for services.

Condition

Income verification is required to perform the sliding fee calculation, which is based on current Federal Poverty Guidelines.

Case

Staff failed to obtain the required information and properly calculate the sliding fee.

Effect

The clinic could be incorrectly billing for services.

Recommendation

Staff should make every effort to obtain information to properly calculate the sliding fee calculation. Patients should be billed full billing rates for all services until all documentation is received.

Whatley Health Services, Inc.
Corrective Action Plan
November 30, 2012

Item 01-12

The patient registration form will be reviewed and revised as necessary to assist in the income calculations. Staff will be retrained to update the patient registration information on an annual basis including the documentation for the sliding fee discount. Additional training will also be provided on calculating and entering the income information accurately.

Whatley Health Services, Inc.
Summary of Prior Audit Findings
For the Year Ended November 30, 2012

Item 01-11

Income verification was not performed in thirteen patient files selected for testing. These selected patients received the sliding fee discount, when they should not have. These patients were not charged the correct billing rates for services.

Item 02-11

Staff was unable to locate seven encounters for patient clinic visits.