

**Whatley Health Services, Inc.  
(A Nonprofit Organization)**

**Tuscaloosa, Alabama**

**Financial Statements  
And  
Supplementary Information**

**December 31, 2019 and 2018**

Whatley Health Services, Inc.  
Table of Contents  
December 31, 2019 and 2018

---

Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 21
Supplementary Information	
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 <i>Governmental Auditing Standards</i>	22 - 23
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	24 - 25
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	27 - 29
Schedule of Findings and Questioned Costs	30 - 32
Summary Schedule of Prior Audit Findings	33
Corrective Action Plan	34



## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Whatley Health Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Whatley Health Services, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2020, 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 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 the Organization's internal control over financial reporting and compliance.

KASSOUF & CO., P.C.



Certified Public Accountants

September 18, 2020

**Whatley Health Services, Inc.**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,399,583	\$ 359,061
Accounts receivable, net	437,319	479,811
Contracts receivable, net	395,467	350,601
Grants receivable	298,833	166,859
Prepaid expenses	43,910	78,669
Other current assets	1,700	1,700
Total Current Assets	2,576,812	1,436,701
<b>Noncurrent Assets</b>		
Construction in progress	-	593,762
Property and equipment, net	7,947,987	6,937,027
Total Noncurrent Assets	7,947,987	7,530,789
Total Assets	10,524,799	8,967,490
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Account payable	1,196,177	1,659,787
Accrued payroll and related liabilities	464,414	397,740
Deferred support	8,500	16,900
Line of credit	233,995	333,070
Capital lease obligation, current portion	59,115	56,948
Notes Payable, current portion	37,805	36,162
Total Current Liabilities	2,000,006	2,500,607
<b>Long Term Liabilities</b>		
Capital lease obligation, net of current portion	1,142,782	1,193,990
Notes payable, net of current portion	768,156	807,918
Total Long Term Liabilities	1,910,938	2,001,908
Total Liabilities	3,910,944	4,502,515
<b>Net Assets</b>		
Net assets without donor restrictions	6,613,855	4,464,975
Total Liabilities and Net Assets	\$ 10,524,799	\$ 8,967,490

See accompanying notes to financial statements.

**Whatley Health Services, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenue and Support</b>		
Federal grants	\$ 8,624,866	\$ 8,661,858
Other grants and contracts	960,243	953,419
Patients' fees, net	5,541,028	6,704,377
340B program	4,650,242	2,925,424
Rental income	16,729	16,729
Interest and other	381,695	170,703
Total Revenue and Support	<u>20,174,803</u>	<u>19,432,510</u>
<b>Expenses</b>		
Program services	13,876,339	14,403,414
General and administrative	4,149,584	4,175,542
Total Expenses	<u>18,025,923</u>	<u>18,578,956</u>
Change in net assets	<u>2,148,880</u>	<u>853,554</u>
Net assets - beginning of year	<u>4,464,975</u>	<u>3,611,421</u>
Net assets - end of year	<u>\$ 6,613,855</u>	<u>\$ 4,464,975</u>

See accompanying notes to financial statements.

**Whatley Health Services, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2019**

	Program Services	General and Administrative	Total
Amortization	\$ -	\$ 4,055	\$ 4,055
Bad debt	1,592,564	-	1,592,564
Contractual services - non-patient care	-	1,068,495	1,068,495
Contractual services - patient care	1,173,225	-	1,173,225
Depreciation	517,042	27,213	544,255
Dispensing fees	79,535	-	79,535
Dues and subscriptions	13,320	-	13,320
Fringe benefits	918,867	229,717	1,148,584
Insurance	27,484	109,938	137,422
Interest and bank charges	-	138,734	138,734
Legal and accounting	-	115,329	115,329
Management fees	-	610,118	610,118
Occupancy	306,837	16,149	322,986
Other expenses	2,231	120,473	122,704
Outreach and promotion	36,425	-	36,425
Personnel	5,973,534	1,493,384	7,466,918
Pharmacy expenses	2,181,509	-	2,181,509
Recruitment and retention	-	54,468	54,468
Repairs and maintenance	124,039	-	124,039
Sanitation	54,190	-	54,190
Supplies	267,255	87,053	354,308
Taxes and licenses	11,496	17,245	28,741
Telecommunications and postage	521,237	27,433	548,670
Training and education	-	10,893	10,893
Travel and transportation	75,549	18,887	94,436
Total Expenses	<u>\$ 13,876,339</u>	<u>\$ 4,149,584</u>	<u>\$ 18,025,923</u>

See accompanying notes to financial statements.

**Whatley Health Services, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**

	Program Services	General and Administrative	Total
Amortization	\$ -	\$ 4,055	\$ 4,055
Bad debt	2,328,398	-	2,328,398
Contractual services - non-patient care	-	1,078,859	1,078,859
Contractual services - patient care	1,205,266	-	1,205,266
Depreciation	507,506	26,711	534,217
Dispensing fees	213,823	-	213,823
Dues and subscriptions	11,654	-	11,654
Fringe benefits	988,635	247,159	1,235,794
Insurance	21,602	86,409	108,011
Interest and bank charges	-	134,266	134,266
Legal and accounting	-	164,665	164,665
Management fees	-	467,089	467,089
Occupancy	310,895	16,363	327,258
Other expenses	14,010	37,408	51,418
Outreach and promotion	17,040	-	17,040
Personnel	6,705,568	1,676,392	8,381,960
Pharmacy expenses	1,261,561	-	1,261,561
Recruitment and retention	-	77,291	77,291
Repairs and maintenance	72,399	-	72,399
Sanitation	72,547	-	72,547
Supplies	289,711	61,442	351,153
Taxes and licenses	14,702	22,053	36,755
Telecommunications and postage	266,812	14,043	280,855
Training and education	-	36,016	36,016
Travel and transportation	101,285	25,321	126,606
Total Expenses	<u>\$ 14,403,414</u>	<u>\$ 4,175,542</u>	<u>\$ 18,578,956</u>

See accompanying notes to financial statements.



**Whatley Health Services, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,148,880	\$ 853,554
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	544,255	534,217
Amortization	4,055	4,055
Decrease (increase) in operating assets:		
Accounts receivable, net	42,492	799,262
Grants and contracts receivable	(176,840)	(62,659)
Prepaid expenses	34,759	(28,222)
(Decrease) increase in operating liabilities:		
Accounts payable	(463,610)	(226,221)
Accrued payroll and related liabilities	66,674	(109,410)
Deferred support	(8,400)	(8,400)
Total Adjustments	<u>43,385</u>	<u>902,622</u>
Net Cash Provided By Operating Activities	<u>2,192,265</u>	<u>1,756,176</u>
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(961,453)	(865,575)
Payments on construction in progress	-	(386,975)
Net Cash (Used In) Investing Activities	<u>(961,453)</u>	<u>(1,252,550)</u>
 <b>Cash Flows from Financing Activities</b>		
Payments on operating line of credit	(99,075)	(121,127)
Payments for debt issuance costs	(4,055)	(4,055)
Payments on long term debt and capital lease obligation	(87,160)	(85,020)
Net Cash (Used In) Financing Activities	<u>(190,290)</u>	<u>(210,202)</u>
 Net change in cash and cash equivalents	<u>1,040,522</u>	<u>293,424</u>
 Cash and cash equivalents at beginning of year	<u>359,061</u>	<u>65,637</u>
 Cash and cash equivalents at end of year	<u>\$ 1,399,583</u>	<u>\$ 359,061</u>
 <b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 111,243	\$ 113,448

See accompanying notes to financial statements.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies

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.

Basis of Presentation and Accounting

“The FASB Accounting Standards Codification” (“FASB ASC”) establishes the source of authoritative standards generally accepted in the United States of America (GAAP) recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities. The FASB amends the FASB ASC through Accounting Standards Updates (ASUs). We refer to ASCs and ASUs throughout these financial statements.

The financial statements of the Corporation have been prepared on the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the Corporation’s funds are included on the statement of financial position. The statement of activities presents increases (e.g., revenues and support) and decreases (e.g., expenses) in net total assets. Generally, revenues are earned as qualified expenses are made and performance occurs.

The Corporation reports deferred support, if applicable, on its statement of financial position. Deferred support arises when resources generated by exchange transactions are received by the Corporation before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the Corporation has a legal claim to the resources, the liability for deferred support is removed from the statement of financial position and revenue is recognized.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - Continued

The Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. There were no net assets with donor restrictions as of December 31, 2019 and 2018. In addition, the Corporation is required to present a statement of cash flows.

Income Taxes

The Corporation has been granted an exemption from income taxes under Internal Revenue Code Section 501(c)(3), as a non-profit corporation. As required by Internal Revenue Service regulations, the Corporation annually files Form 990, "Return of Organization Exempt from Income Tax" with the Internal Revenue Service. Contributions to the Corporation 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.

Use of Estimates

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

Significant items subject to such estimates include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for employee health care claims, accrued professional liability costs, and estimated third-party payer settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Cash and Cash Equivalents

In presenting the statement 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.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies - Continued

Accounts Receivable

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

An adequate allowance for adjustments has been provided for estimated private patient receivable adjustments and estimated contractual adjustments on third-party 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 \$2,819,268 and \$2,033,499 which represents 79% and 76% percent of gross receivables as of December 31, 2019 and 2018, respectively.

Contracts Receivable

Contracts receivable consist of reimbursements to be received as part of the 340B Program from third party payers. These contracts may result in collections less than the requested amounts. Accordingly, the allowance for potential non-payment is estimated to be \$147,742 and \$147,226 as of December 31, 2019 and 2018.

Grants Receivable

Grants receivable consist of state and federal grants and are considered to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when the determination is made. Grants receivable represents pending reimbursement of program expenses incurred and billed prior to December 31, 2019 and 2018.

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.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies - Continued

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. Accordingly, the Corporation may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of HHS.

Support

All contributions are considered available for the Corporation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted the donor are reported as restricted support and increase net assets with donor restrictions. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

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.

Advertising

Advertising costs are expensed as incurred. These costs are included in outreach and promotion expense and totaled \$36,425 and \$17,040 for the year ended December 31, 2019 and 2018.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 1. 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.

Current Healthcare Environment

The Corporation monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Corporation in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates
- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payer industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Corporation's financial position and operating results.

Concentrations of Credit Risk

The Corporation maintains its cash balances in several financial institutions in Alabama. The Corporation may, from time to time, maintain amounts in excess of the Federal Deposit Insurance Corporation ("FDIC") maximum coverage.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies – Continued

Cost Allocation

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Corporation. Those expenses include depreciation, insurance, occupancy, taxes and licenses, and telephone. These expenses are allocated based on square footage.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes existing revenue recognition guidance under accounting principles generally accepted in the United States of America. Topic 606 outlines new, single comprehensive model for entities to use in accounting for revenue. In doing so, it is possible more judgement and estimates may be required by management than currently required under accounting principles general accepted in the United States of America. Topic 606 is effective for annual reporting periods beginning after December 15, 2019 using one of two methods; retrospective to each reporting period presented in the consolidated financial statements; or retrospectively with the cumulative effect recognized at the date of initial application. The application of Topic 606 may result in material differences from current accounting principles generally accepted in the United States of America. The Corporation is currently evaluating the impact of adopting this new guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. In comparison to the year December 31, 2018, there was no effect after adopting the new accounting principle.

Reclassifications

Certain 2018 amounts have been reclassified to conform with 2019 financial statements presentation.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 2. 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 December 31, 2019 and 2018, carrying amounts were as follows:

	<b>2019</b>	<b>2018</b>
Medicaid receivable	\$ 343,003	\$ 277,325
Medicaid contractual allowance	(140,424)	(113,703)
Net Medicaid receivable	<u>202,579</u>	<u>163,622</u>
Private insurance receivable	635,058	558,435
Private insurance contractual allowance	(336,581)	(312,678)
Net private insurance receivable	<u>298,477</u>	<u>245,757</u>
Medicare receivable	322,372	346,722
Medicare contractual allowance	(145,295)	(156,025)
Net Medicare receivable	<u>177,077</u>	<u>190,697</u>
Self-pay receivable	2,264,916	1,495,972
Self-pay allowance	(2,196,968)	(1,451,093)
Net self-pay receivable	<u>67,948</u>	<u>44,879</u>
(Unapplied payments) other receivable	(308,762)	(165,144)
Net accounts receivable	<u>\$ 437,319</u>	<u>\$ 479,811</u>

Note 3. Contracts Receivable

Contracts receivable consist of reimbursements to be received as part of the 340B Program from third party payers such as Curren, Walgreens, RX Strategies and Equiscript. Contracts receivable is carried at the estimated collectible amount. An allowance for uncollectible accounts is determined on the basis of collections from previous months. As of December 31, 2019 and 2018, carrying amounts were as follows:

	<b>2019</b>	<b>2018</b>
340B Program	\$ 543,209	\$ 497,827
340B Allowance	(147,742)	(147,226)
Net contracts receivable	<u>\$ 395,467</u>	<u>\$ 350,601</u>



**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 4. Grants Receivable

Grants receivable consists of the following:

	<b>2019</b>	<b>2018</b>
Supplemental Grant – Other Public	\$ 38,572	\$ 41,351
Ryan White II	21,573	-
Other	238,688	460
Total grant receivable	<u>\$ 298,833</u>	<u>\$ 41,811</u>

Note 5. Property and Equipment

At December 31, 2019 and 2018, property and equipment consisted of the following:

	<b>2019</b>	<b>2018</b>
Land	\$ 474,693	\$ 474,693
Land improvements	34,469	34,469
Buildings and improvements	9,757,045	8,214,978
Buildings – capital lease	114,537	114,537
Leasehold improvements	2,496,765	2,496,765
Furniture and equipment	2,596,141	2,582,994
OHIT software	182,401	586,801
	<u>15,656,051</u>	<u>14,505,237</u>
Accumulated depreciation	<u>(7,708,064)</u>	<u>(7,568,210)</u>
Net property and equipment	<u>\$ 7,947,987</u>	<u>\$ 6,937,027</u>

Depreciation expense for the year ended December 31, 2019 and 2018 was \$544,255 and \$534,217, respectively.

Note 6. Deferred Support

At December 31, 2019 and 2018, deferred support consisted of the following:

	<b>2019</b>	<b>2018</b>
Community Service Program – Hale County		
Facility Rent	\$ 8,500	\$ 16,900
Total deferred support	<u>\$ 8,500</u>	<u>\$ 16,900</u>

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 7. Operating Line of Credit

The Corporation has an operating line of credit secured by its property at 2731 Martin Luther King Jr. Blvd. with a financial institution. The limit on the operating line of credit is \$500,000. The line of credit has a variable interest rate of prime plus 1.25%, which was 6.00% and 5.75% as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, funds drawn against the line were \$233,995 and \$333,070, respectively. The line of credit matured May 31, 2019, and was renewed until May 31, 2020.

Note 8. Capital Lease Obligation

On May 1, 2015, The Heritage Medical Clinic Board (Heritage) facilitated a bond issue with Regions Equipment Financing Corporation (Regions) for the purpose of refinancing certain debt obligations of the Corporation. In connection with this, Heritage, Regions and the Corporation entered into certain financing and lease agreements for one Revenue Bond (Whatley Health Services, Inc. Project) in order to refinance certain long-term indebtedness. The Revenue Bond was for \$1,453,720; has an interest rate of 3.74%; and matures on April 30, 2025. The note is payable in monthly installments including interest and is secured by certain property and equipment of the Corporation.

Heritage is leasing certain land and buildings to the Corporation for rental payments in the amount sufficient to pay the principal and interest on the note payable, as discussed above, when due.

This capitalized lease is for land, building and improvements with a cost of \$4,003,635 and accumulated depreciation of \$1,325,605 and \$1,165,460, respectively at December 31, 2019 and 2018.

The following is a schedule of future payment obligations under the capital lease:

2020	\$ 103,336
2021	103,336
2022	103,336
2023	103,336
2024	103,336
thereafter	905,102
Future minimum lease payments	<u>1,421,782</u>
Less amounts representing interest	<u>(207,057)</u>
	1,214,725
Less unamortized issuance costs	(12,828)
Less current portion	<u>(59,115)</u>
Total noncurrent portion of capital lease obligation	<u>\$ 1,142,782</u>

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 8. Capital Lease Obligation - Continued

Under the terms of the note, the Corporation is required to have a debt service coverage ratio of no less than 1.50. In addition, the Corporation is required to maintain tangible net worth of not less than \$4,000,000. The Corporation was in compliance with these covenants at December 31, 2019.

Note 9. Notes Payable

On May 28, 2015, the Corporation entered into a loan agreement with Regions Equipment Financing Corporation (Regions) for the purpose of refinancing certain long-term debt obligations of the Corporation.

Notes payable at December 31, 2019 and 2018 consists of the following:

	<b>2019</b>	<b>2018</b>
Note payable, due in monthly installments of \$6,122 interest at annual rate of 4.45%, maturing on May 28, 2025, secured by real estate.	\$ 815,167	\$ 854,973
Less unamortized debt issuance costs	<u>(9,206)</u>	<u>(10,893)</u>
	805,961	844,080
Less current portion	<u>(37,805)</u>	<u>(36,162)</u>
Total noncurrent portion of long term debt	<u>\$ 768,156</u>	<u>\$ 807,918</u>

Future principal payments, net of unamortized debt issuance costs, are as follow:

2020	\$ 37,806
2021	39,521
2022	41,317
2023	43,193
2024	45,155
thereafter	598,969
Total future principal payments	<u>\$ 805,961</u>

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 10. Net Patient Service Revenue

The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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 21% and 25% of the Corporation's net patient revenues were derived from Medicare beneficiaries in 2019 and 2018, respectively.

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 31% and 30% of the Corporation's net patient revenues were derived from Medicaid beneficiaries in 2019 and 2018.

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 Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 11. Grants (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.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 11. Grants (economic dependency) - Continued

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 12. 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 December 31, 2019 and 2018 amounted to \$42,685 and \$56,301, respectively.

Note 13. 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 December 31, 2019 and 2018, charity care amounted to \$6,278,773 and \$7,538,421, respectively.

Note 14. Commitments and Contingencies

Operating Leases

The Corporation had operating leases, summarized as follows:

Lessor	Item	Period	Payment	Annual
City of York	Land	Monthly	\$ 300	\$ 3,600
Billy Blakeney	Space	Monthly	2,800	33,600
Pickens Co. Medical	Space	Monthly	4,344	52,130

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 14. Commitments and Contingencies - Continued

The leases with the City of York, Billy Blakeney, and Pickens Co. Medical Center are on month-to-month renewal terms.

The future minimum lease payments required under these operating leases at December 31, 2019 are as follows:

2020	\$	55,730
2021		53,030
2022		52,130
2023		39,098
Total future minimum lease payments	\$	<u>199,988</u>

Note 15. 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 December 31, 2019 and 2018. No amounts were due from or to the Consortium as of December 31, 2019 and 2018.

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 December 31, 2019 and 2018, \$8,500 and \$16,900, respectively, of this deposit remained unearned. The space is rented to CSP at the rate of \$700 per month.

**Whatley Health Services, Inc.**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

Note 16. Liquidity and Availability of Financial Assets

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The following reflects the Corporation's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor imposed restrictions within one year of the balance sheet date.

Financial assets at December 31,	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,399,583	\$ 359,061
Accounts receivable, net	437,319	479,811
Contract receivable, net	395,467	350,601
Grant receivable	298,833	166,859
Other current assets	<u>1,700</u>	<u>1,700</u>
	2,532,902	1,358,032
 Less those unavailable for general expenditures within one year:	 <u>-</u>	 <u>-</u>
	<u>2,532,902</u>	<u>1,358,032</u>
 Financial assets available to meet cash needs within one year:	 \$ <u>2,532,902</u>	 \$ <u>1,358,032</u>

Note 17. Litigation

The Corporation is involved in litigation arising in the normal course of business. While the final outcome of pending litigation cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Corporation's statement of activities.

Note 18. Subsequent Events

The Corporation has evaluated subsequent events through September 18, 2020, which is the date the financial statements were available to be issued.

During this time, as a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that are likely to impact the Organization's revenue. Other financial impact could occur, though such potential impact is unknown at this time.

## **Supplementary Information**





CERTIFIED PUBLIC ACCOUNTANTS

**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.  
Birmingham, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Whatley Health Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2020.

**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 opinions 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 Whatley Health Services, Inc.'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 the 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 that we consider to be material weaknesses.

**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*.

### **Whatley Health Services, Inc.'s Response to Findings**

Whatley Health Services, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Whatley Health Services, Inc. response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KASSOUF & CO., P.C.



Certified Public Accountants

September 18, 2020



**Independent Auditor's Report On Compliance For Each Major  
Program And On Internal Control Over Compliance Required By  
The Uniform Guidance**

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

**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 Compliance Supplement* that could have a direct and material effect on Whatley Health Services, Inc.'s major federal program for the year ended December 31, 2019 and 2018. Whatley Health Services, Inc.'s major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

***Opinion on Each Major Federal Program***

In our opinion, Whatley Health Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

## 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Whatley Health Services, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned cost at items 2019-002, that were considered to be material weaknesses.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KASSOUF & CO., P.C.



Certified Public Accountants

September 18, 2020

**Whatley Health Services, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**December 31, 2019**

<b>Federal Grantor/Pass-through Grantor</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
U.S. Department of Health and Human Services:		
Direct Program		
Expanded Services under the Health Care Program – H80CS00094-18-00	93.224	\$ 7,203,816
Access Increases in Mental Health and Substance Abuse – H80CS00094-18-04	93.527	89,981
Total Health Center Program Cluster		7,293,797
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White HIV/AIDS Program Part C - H76HA00595-19-01		
	93.918	156,192
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White HIV/AIDS Program Part C - H76HA00595-20-00		
	93.918	207,050
Subtotal for 93.918		363,242
Capital Assistance for Hurricane Response and Recovery Efforts (CARE) – C13CS32001-01-00		
	93.501	62,330
Health Infrastructure Investment Program- C8DCS29077-01-08		
	93.526	696,704
Total direct programs		8,416,073
Passed through United Way of Central Alabama, Inc.		
HIV Care Formula Grants - Ryan White HIV/AIDS Program Part B – RW-WHAT-1819	93.917	47,504
HIV Care Formula Grants - Ryan White HIV/AIDS Program Part B – RW-WHAT-1920	93.917	188,389
		235,893
Total U.S. Department of Health and Human Services		8,651,966
Total Federal Expenditures		\$ 8,651,966

See accompanying notes to the financial statements.

**Whatley Health Services, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**December 31, 2019**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) summarizes the federal expenditures of the Corporation under programs of the federal government for the year ended December 31, 2019. The amounts reported as federal expenditures were obtained from the Corporation's general ledger. Because the schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets and cash flows of the Corporation.

For purposes of the schedule, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass through entities. Payments received for goods or services provided as a vendor do not constitute federal awards for purposes of the schedule. The Corporation has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the schedule. Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. One cluster is separately identified in the SEFA and is the following:

Health Center Program Cluster - The purpose of the Health Center Program (HCP) cluster is to improve the health of the Nation's underserved communities and vulnerable populations by assuring continued access to comprehensive, culturally competent, quality primary health care services. HCP grants support a variety of community-based and patient-directed public and private nonprofit organizations that provide primary and preventive health care services to the Nation's underserved.

Note 2. Relationship of the Schedule to Program Financial Reports

The amounts reflected in the financial reports submitted to the awarding federal and/or pass-through agencies and the schedule may differ. Some of the factors that may account for any difference include the following:

- The Corporation's fiscal year end may differ from the program's year end.
- Accruals recognized in the schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as property and equipment, net in the Corporation's financial statements and as expenditures in the program financial reports.

**Whatley Health Services, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards - Continued**  
**December 31, 2019**

Note 3. Federal Pass-Through Funds

The Corporation is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as pass-throughs are considered to be direct.

Note 4. Basis of Accounting

This schedule was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred, rather than being applied to reduce the outstanding principal portion of debt, which conforms to the basis of reporting to grantors for reimbursement under the terms of the Corporation's federal grants.

Note 5. Contingencies

Grant monies received and disbursed by the Corporation are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon experience, the Corporation does not believe that such disallowance, if any, would have a material effect on the financial position of the Corporation.

Note 6. Noncash Assistance

The Corporation did not receive any federal noncash assistance for the fiscal year ending December 31, 2019.

Note 7. Indirect Cost Rate

The Corporation has elected to not use the 10% de minimis indirect cost rate.

Note 8. Subrecipients

The Corporation did not provide federal funds to subrecipients for the fiscal year ending December 31, 2019.

**Whatley Health Services, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards - Continued**  
**December 31, 2019**

Note 9.      Loans and Loan Guarantees

The Corporation did not have any loans or loan guarantee programs required to be reported on the schedule.



**Whatley Health Services, Inc.**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2019**

**Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified that are not considered to be a material weakness	None reported
Noncompliance material to the financial statement noted	No

**Federal Award Section**

Internal control over major programs:	
Material weakness identified	Yes
Significant deficiencies identified that are not considered to be a material weakness	None reported
Type of auditor’s report issued on compliance for major programs	Unmodified
Audit findings disclosed that are required to be reported in Accordance with the Uniform Guidance	Yes

Identification of major programs:

**Federal Programs**

U.S. Department of Health and Human Services:	<b>CFDA No.</b>
Community Health Centers	93.224

Dollar threshold used to determine Type A program:	\$ 750,000
Auditee qualified as low-risk auditee under the Uniform Guidance?	No

**Findings – Financial Statements Audit** Yes

**Findings and Questioned Costs – Major Federal Award Programs Audit** Yes

**Whatley Health Services, Inc.**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2019**

**Findings – Financial Statements Audit**

**2019-001 Data Security**

**Condition** – The Corporation experienced a ransomware attack during the year ended December 31, 2019 as it did not have sufficient data security over its information technology. This led to lost financial information data which required restoration of the general ledger.

**Criteria** – Implementation of security controls for the Corporation’s information technology is important because these controls reduce the risks that arise from the loss of data or availability of information that could adversely impact the Corporation’s operations.

**Cause** – In March 2019, the Corporation was subject to an external ransomware attack which impacted various information systems including the financial reporting system.

**Effect** – Due to the ransomware attack, the Corporation did not properly prevent or detect the loss of confidentiality or availability of systems or data.

**Recommendation** – The Corporation should evaluate its data security and train staff on the policies and procedures for data security.

**Management’s Response** – The Corporation is increasing its efforts to ensure that its policies and procedures surrounding data security are followed. An enhanced data security infrastructure has been implemented as well improved and more robust monitoring protocols.

**Findings – Major Federal Award Program Audit**

**2019-002 Program Income – Sliding Fee Scale**  
**Health Center Program Cluster # 93.224 & 93.527**  
**U.S. Department of Health and Human Services**  
**Contract H80CS00094**

**Condition** – Out of 60 encounters tested we noted the following:

1. Three (3) instances where there was no registration form, proof of identity, proof of income, or any other documentation in patient file.
2. Three (3) instances where there was no registration form in patient file.
3. Two (2) instances where the sliding fee scale discount was not properly applied.

**Whatley Health Services, Inc.**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2019**

**2019-002 Program Income – Continued**

**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)).

**Cause** – Failure to obtain the required documentation was due to failure of the Corporation to properly monitor the process. Errors in calculating and/or applying the sliding fee discounts were primarily due to staff not properly following the process of entering and substantiating income within the NextGen software and the Corporation not properly monitoring the process. Conditions No. 1, No. 2, and No. 3 are repeat finding from the prior year. See Summary Schedule of Prior Audit Findings 2018 - 001.

**Effect** – The Corporation 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, identification, and registration in accordance with internal policies and procedures. Patients should be billed full billing rates for all services until all documentation is received. We recommend additional staff training, focusing on software familiarization and additional monitoring of the process by the Corporation.

**Management’s Response** – The Corporation is increasing its efforts to ensure that its policies and procedures surrounding documentation of patient income, identification, and registration is followed, and specifically that this documentation is archived correctly within every patient file. The Corporation has conducted several staff trainings, and has revised its review procedures for checking compliance to improve monitoring of the process by the Corporation.

**Whatley Health Services, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**December 31, 2019**

**Findings – Major Federal Award Program Audit**

**2018-001 Program Income – Sliding Fee Scale**  
**Health Center Program Cluster # 93.224 & 93.527**  
**U.S. Department of Health and Human Services**  
**Contract H80CS00094**

**Condition** – Out of 60 encounters tested we noted the following:

1. One (1) instance where page two of the registration form was not signed by the patient.
2. One (1) instance where there was no registration form, proof of identity, proof of income, or any other documentation in patient file.
3. One (1) instance where partial minimum charge was collected at the time of the visit; however, the remaining balance of the minimum charge was not billed to the patient.
4. Two (2) instances where the sliding fee scale discount was not properly applied.

**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)).

**Cause** – Failure to obtain the required documentation was due to failure of the Corporation to properly monitor the process. Errors in calculating and/or applying the sliding fee discounts were primarily due to staff not properly following the process of entering and substantiating income within the NextGen software and the Corporation not properly monitoring the process. Conditions No. 1, No. 2, and No. 3 are repeat finding from the prior year. See Summary Schedule of Prior Audit Findings 2017 - 002.

**Effect** – The Corporation 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, identification, and registration in accordance with internal policies and procedures. Patients should be billed full billing rates for all services until all documentation is received. We recommend additional staff training, focusing on software familiarization and additional monitoring of the process by the Corporation.

**Management’s Response** – The Corporation is increasing its efforts to ensure that its policies and procedures surrounding documentation of patient income, identification, and registration is followed, and specifically that this documentation is archived correctly within every patient file. The Corporation has conducted several staff trainings, and has revised its review procedures for checking compliance to improve monitoring of the process by the Corporation.

**Whatley Health Services, Inc.  
Corrective Action Plan  
December 31, 2019**



*Whatley Health Services, Inc.*

"MANAGING QUALITY PREVENTIVE HEALTH CARE"

2731 M. L. KING, JR. BLVD. • P. O. BOX 2400 • TUSCALOOSA, AL 35403



---

PHONE: (205) 349-3250 • FAX: (205) 345-3993 • TOLL FREE: (866) 783-2283

**2019-001 Data Security**

The Corporation is increasing its efforts to ensure that its policies and procedures surrounding data security is followed. An enhanced data security infrastructure has been implemented as well improved and more robust monitoring protocols.

**2019-002 Program Income**

The Corporation is increasing its efforts to ensure that its policies and procedures surrounding documentation of patient income, identification, and registration is followed, and specifically that this documentation is archived correctly within every patient file. The Corporation has conducted several staff trainings, and has revised its review procedures for checking compliance to improve monitoring of the process by the Corporation.

Completion Date: Estimated December 2020

Contact Person: Zach Chism  
Chief Financial Officer  
2731 Martin Luther King, Jr. Blvd  
Tuscaloosa, AL 35401  
(205) 614-6141  
zchism@whatleyhealth.org