

# WAIKIKI HEALTH

MEDICAL & DENTAL • PREVENTIVE CARE • SOCIAL SERVICES

---

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

Years Ended December 31, 2012 and 2011



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

# WAIKIKI HEALTH

## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I FINANCIAL SECTION</b>	
Independent Auditors' Report	5 - 6
Financial Statements	
Statements of Financial Position	7
Statements of Activities	8 - 9
Statements of Functional Expenses	10 - 11
Statements of Cash Flows	12
Notes to Financial Statements	13 - 21
Supplementary Information	
Schedule of Expenditures of Federal Awards	23 - 24
Notes to Schedule of Expenditures of Federal Awards	25
Schedule of Contracts with the Department of Health of the State of Hawaii	26
 <b>PART II REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28 - 29

**WAIKIKI HEALTH**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART III REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE</b>	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	32 - 34
<b>PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	35
<b>PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	
Status Report	37

**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Waikiki Health

### Report on the Financial Statements

We have audited the accompanying financial statements of Waikiki Health (Center), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditors' 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 organization'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 organization'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 the Center as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity 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 and the schedule of contracts with the Department of Health of the State of Hawaii are 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 the State of Hawaii, and are 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 audits 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 June 6, 2013, on our consideration of the Center'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 Center's internal control over financial reporting and compliance.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
June 6, 2013

**Waikiki Health**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,252,161	\$ 2,006,637
Grants receivable	882,573	611,734
Patient accounts receivable, net of allowance for doubtful accounts of \$52,902 in 2012 and \$35,000 in 2011	375,084	368,564
Pledge receivable	--	48,668
Inventories	28,778	30,928
Prepaid expenses	<u>124,138</u>	<u>111,336</u>
Total current assets	<u>3,662,734</u>	<u>3,177,867</u>
<b>PROPERTY AND EQUIPMENT</b>		
Equipment and furniture	442,486	431,878
Vehicles	161,425	149,116
Software	355,842	355,842
Leasehold improvements	<u>714,499</u>	<u>682,269</u>
	1,674,252	1,619,105
Less accumulated depreciation	<u>894,817</u>	<u>737,825</u>
	<u>779,435</u>	<u>881,280</u>
<b>OTHER ASSETS</b>		
Deposits	<u>30,232</u>	<u>30,232</u>
	\$ <u>4,472,401</u>	\$ <u>4,089,379</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 136,757	\$ 114,002
Payable to grant subrecipients	39,952	65,083
Deferred revenue	211,397	154,947
Accrued vacation	127,749	114,945
Other accrued liabilities	<u>282,786</u>	<u>255,496</u>
Total current liabilities	<u>798,641</u>	<u>704,473</u>
<b>NET ASSETS</b>		
Unrestricted	3,521,897	3,088,075
Temporarily restricted	<u>151,863</u>	<u>296,831</u>
	<u>3,673,760</u>	<u>3,384,906</u>
	\$ <u>4,472,401</u>	\$ <u>4,089,379</u>

See accompanying notes to financial statements.

**Waikiki Health**  
**STATEMENTS OF ACTIVITIES**  
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Patient service revenue (net of contractual allowances and discounts)	\$ 3,473,257	\$ --	\$ 3,473,257
Provision for bad debts	<u>39,624</u>	<u>--</u>	<u>39,624</u>
Net patient service revenue	3,433,633	--	3,433,633
Grants from governmental agencies	3,943,340	--	3,943,340
Pharmacy sales	1,253,916	--	1,253,916
Purchase of service agreements	283,405	--	283,405
Contributions - unrestricted	195,675	--	195,675
Aloha United Way allocation	28,485	--	28,485
Interest and dividend income	330	--	330
Other income	145,226	--	145,226
Net assets released from restrictions			
Satisfied by payments	<u>608,064</u>	<u>(608,064)</u>	<u>--</u>
Total revenue and support	<u>9,892,074</u>	<u>(608,064)</u>	<u>9,284,010</u>
<b>EXPENSES</b>			
Program services	8,471,072	--	8,471,072
Supporting services			
Management and general	595,101	--	595,101
Fundraising	<u>392,079</u>	<u>--</u>	<u>392,079</u>
Total expenses	<u>9,458,252</u>	<u>--</u>	<u>9,458,252</u>
Revenue and support over (under) expenses	<u>433,822</u>	<u>(608,064)</u>	<u>(174,242)</u>
<b>OTHER SUPPORT</b>			
Contributions - temporarily restricted	<u>--</u>	<u>463,096</u>	<u>463,096</u>
	<u>--</u>	<u>463,096</u>	<u>463,096</u>
<b>CHANGE IN NET ASSETS</b>	433,822	(144,968)	288,854
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,088,075</u>	<u>296,831</u>	<u>3,384,906</u>
<b>NET ASSETS AT END OF YEAR</b>	\$ <u>3,521,897</u>	\$ <u>151,863</u>	\$ <u>3,673,760</u>

**Waikiki Health**  
**STATEMENTS OF ACTIVITIES (Continued)**  
**Year Ended December 31, 2011**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Grants from governmental agencies	\$ 3,282,600	\$ --	\$ 3,282,600
Net patient service revenue	2,845,759	--	2,845,759
Pharmacy sales	745,898	--	745,898
Purchase of service agreements	350,610	--	350,610
Contributions - unrestricted	222,212	--	222,212
Donated services	33,895	--	33,895
Aloha United Way allocation	17,736	--	17,736
Interest and dividend income	331	--	331
Other income	94,819	--	94,819
Net assets released from restrictions			
Satisfied by payments	<u>363,687</u>	<u>(363,687)</u>	<u>--</u>
Total revenue and support	<u>7,957,547</u>	<u>(363,687)</u>	<u>7,593,860</u>
<b>EXPENSES</b>			
Program services	7,074,525	--	7,074,525
Supporting services			
Management and general	604,172	--	604,172
Fundraising	<u>394,944</u>	<u>--</u>	<u>394,944</u>
Total expenses	<u>8,073,641</u>	<u>--</u>	<u>8,073,641</u>
Revenue and support over (under) expenses	<u>(116,094)</u>	<u>(363,687)</u>	<u>(479,781)</u>
<b>OTHER SUPPORT</b>			
Contributions - temporarily restricted	--	525,420	525,420
Net assets released from restrictions			
Satisfied by payments for property and equipment	<u>18,000</u>	<u>(18,000)</u>	<u>--</u>
	<u>18,000</u>	<u>507,420</u>	<u>525,420</u>
<b>CHANGE IN NET ASSETS</b>	(98,094)	143,733	45,639
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>3,186,169</u>	<u>153,098</u>	<u>3,339,267</u>
<b>NET ASSETS AT END OF YEAR</b>	\$ <u>3,088,075</u>	\$ <u>296,831</u>	\$ <u>3,384,906</u>

See accompanying notes to financial statements.

**Waikiki Health**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2012**

	PROGRAM SERVICES										SUPPORTING SERVICES			TOTAL
	Primary	Pharmacy	STD/	Youth	Homeless	HIV	Waikiki	Ho'ola	PATH	Total	Management	Fundraising	Total	
	Care		AIDS	Outreach	Services	Early	Friendly	Like			and			
Salaries and related expenses	\$ 2,916,159	\$ 301,118	\$ 295,804	\$ 163,676	\$ 2,005,932	\$ 240,248	\$ 32,044	\$ 76,707	\$ 214,442	\$ 6,246,130	\$ 148,221	\$ 274,192	\$ 422,413	\$ 6,668,543
Grants to other organizations	--	--	76,002	--	115,314	--	--	--	--	191,316	--	--	--	191,316
Depreciation	101,211	--	--	25,201	1,827	--	--	--	--	128,239	30,615	240	30,855	159,094
Dues and subscriptions	15,050	225	--	225	60	--	--	--	--	15,560	14,886	--	14,886	30,446
Health information technology	45,563	--	--	662	8,076	--	--	1,805	3,835	59,941	1,705	--	1,705	61,646
Insurance	8,041	--	--	--	447	--	--	--	--	8,488	22,600	--	22,600	31,088
Interest	--	--	--	--	--	--	--	--	--	--	1,283	--	1,283	1,283
Internet and IT services	90,330	5,949	6,268	6,013	91,127	8,773	1,988	3,288	7,590	221,326	27,762	7,461	35,223	256,549
Marketing	--	--	--	--	--	--	--	--	--	--	--	22,471	22,471	22,471
Medical fees	15,348	--	15,870	--	--	1,059	--	--	--	32,277	414	--	414	32,691
Medical supplies	158,362	432,495	24,421	326	25,129	13,066	--	10,041	7,096	670,936	--	--	--	670,936
Meetings	592	--	361	--	--	--	--	--	--	953	6,310	51	6,361	7,314
Miscellaneous	(242)	5,160	464	4	920	(8,848)	--	(10)	927	(1,625)	31,061	21,262	52,323	50,698
Other supplies	12,288	2,554	251	1,875	19,288	2,215	282	9	675	39,437	10,162	1,327	11,489	50,926
Postage	13,993	524	171	31	988	499	--	3	37	16,246	6,789	6,868	13,657	29,903
Printing and publications	4,092	--	1,643	590	2,808	1,382	310	98	3,758	14,681	145	32,926	33,071	47,752
Professional fees	46,533	914	40,235	2,809	121	--	--	27	63,613	154,252	163,996	1,315	165,311	319,563
Program supplies	573	--	38	14,469	35,305	483	--	--	240	51,108	--	344	344	51,452
Registration fees	3,577	65	--	--	2,208	--	--	--	574	6,424	8,813	--	8,813	15,237
Rent	81,534	1,989	2,653	6,000	72,502	11,984	120	7,507	22,919	207,208	58,413	15,596	74,009	281,217
Repairs and maintenance	75,012	12,398	1,428	836	131,625	1,654	283	677	1,599	225,512	30,542	3,717	34,259	259,771
Small equipment purchases	6,153	--	--	8,520	14,973	--	--	--	1,550	31,196	3,970	2,413	6,383	37,579
Telephone	7,753	1,046	471	426	8,487	3,613	733	1,569	1,159	25,257	3,295	565	3,860	29,117
Training	4,528	275	717	190	4,365	250	--	--	624	10,949	3,536	1,059	4,595	15,544
Travel	2,509	--	4,683	558	16,243	22,044	89	2,420	(330)	48,216	18,975	272	19,247	67,463
Utilities	36,237	1,371	1,827	--	25,257	2,085	--	268	--	67,045	1,608	--	1,608	68,653
<b>Total functional expenses</b>	<b>\$ 3,645,196</b>	<b>\$ 766,083</b>	<b>\$ 473,307</b>	<b>\$ 232,411</b>	<b>\$ 2,583,002</b>	<b>\$ 300,507</b>	<b>\$ 35,849</b>	<b>\$ 104,409</b>	<b>\$ 330,308</b>	<b>\$ 8,471,072</b>	<b>\$ 595,101</b>	<b>\$ 392,079</b>	<b>\$ 987,180</b>	<b>\$ 9,458,252</b>

**Waikiki Health**  
**STATEMENTS OF FUNCTIONAL EXPENSES (Continued)**  
**Year Ended December 31, 2011**

	PROGRAM SERVICES									SUPPORTING SERVICES				
	Primary Care	Pharmacy	STD/ AIDS	Youth Outreach Services	Homeless Services	HIV Early Intervention	Waikiki Friendly Neighbors	Ho'ola Like Project	PATH	Total	Management and General	Fundraising	Total	TOTAL
Salaries and related expenses	\$ 2,304,789	\$ 269,505	\$ 204,203	\$ 132,251	\$ 1,317,980	\$ 290,284	\$ 48,728	\$ 71,494	\$ 107,823	\$ 4,747,057	\$ 296,924	\$ 285,744	\$ 582,668	\$ 5,329,725
Grants to other organizations	--	--	134,500	--	370,527	--	--	--	--	505,027	--	--	--	505,027
Bad debt	(34,203)	--	--	--	96,653	--	--	--	--	62,450	--	--	--	62,450
Depreciation	175,348	--	256	396	43,119	--	--	--	--	219,119	8,985	724	9,709	228,828
Dues and subscriptions	375	415	--	300	60	--	--	505	--	1,655	14,749	285	15,034	16,689
Health information technology	40,219	219	--	553	7,089	--	--	1,569	748	50,397	1,093	--	1,093	51,490
Insurance	7,467	--	--	--	20	--	--	--	--	7,487	20,273	--	20,273	27,760
Interest	--	--	--	--	--	--	--	--	--	--	677	--	677	677
Internet and IT services	61,803	4,532	4,938	5,296	36,943	8,771	2,930	2,253	3,331	130,797	23,209	5,827	29,036	159,833
Marketing	6,444	--	--	--	1,000	--	--	--	--	7,444	--	22,890	22,890	30,334
Medical fees	5,772	--	--	--	3,282	--	--	--	--	9,054	--	--	--	9,054
Medical supplies	148,964	259,971	24,689	7,426	60,968	42,449	--	12,553	7,941	564,961	92	--	92	565,053
Meetings	--	--	--	--	--	--	--	--	--	--	7,432	104	7,536	7,536
Miscellaneous	5,305	2,535	--	--	27,218	10,126	--	321	69	45,574	36,789	2,924	39,713	85,287
Other supplies	17,460	4,676	332	2,430	21,326	14,704	228	357	3,474	64,987	12,546	2,060	14,606	79,593
Postage	13,958	466	95	20	1,377	2,149	1	7	9	18,082	5,792	6,878	12,670	30,752
Printing and publications	3,930	--	79	306	3,136	397	143	542	673	9,206	274	45,173	45,447	54,653
Professional fees	21,549	4,871	9,759	--	697	--	--	106	38,757	75,739	57,638	--	57,638	133,377
Program supplies	857	--	76	1,168	28,979	5,947	20	200	2,143	39,390	--	--	--	39,390
Registration fees	1,143	325	198	106	2,117	--	--	--	293	4,182	7,387	120	7,507	11,689
Rent	73,176	1,992	2,643	6,000	69,275	11,914	--	8,669	15,079	188,748	60,955	13,366	74,321	263,069
Repairs and maintenance	82,660	9,763	2,714	1,596	42,801	3,135	957	925	5,976	150,527	15,990	3,569	19,559	170,086
Small equipment purchases	7,102	206	--	11,707	8,178	1,111	--	--	1,397	29,701	--	--	--	29,701
Telephone	9,621	1,130	634	975	12,320	5,503	800	1,530	1,476	33,989	5,857	809	6,666	40,655
Training	2,039	--	--	--	2,407	1,505	--	--	63	6,014	7,538	1,135	8,673	14,687
Travel	2,323	--	1,293	262	16,248	32,469	33	2,536	1,052	56,216	18,747	3,336	22,083	78,299
Utilities	27,705	1,078	1,437	--	14,201	1,980	--	321	--	46,722	1,225	--	1,225	47,947
<b>Total functional expenses</b>	<b>\$ 2,985,806</b>	<b>\$ 561,684</b>	<b>\$ 387,846</b>	<b>\$ 170,792</b>	<b>\$ 2,187,921</b>	<b>\$ 432,444</b>	<b>\$ 53,840</b>	<b>\$ 103,888</b>	<b>\$ 190,304</b>	<b>\$ 7,074,525</b>	<b>\$ 604,172</b>	<b>\$ 394,944</b>	<b>\$ 999,116</b>	<b>\$ 8,073,641</b>

See accompanying notes to financial statements.

**Waikiki Health**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>Cash flows from operating activities</b>		
Change in net assets	\$ <u>288,854</u>	\$ <u>45,639</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	159,094	228,828
Amortization of discount on pledge restricted for long-term purposes	461	(1,532)
Provision (recovery) for bad debt	39,624	(32,517)
Loss on disposal of assets	--	1,279
(Increase) decrease in:		
Grants receivable	(270,839)	(16,555)
Patient accounts receivable	(46,144)	(108,088)
Inventories	2,150	(2,257)
Prepaid expenses and other assets	(12,802)	8,034
Other assets	--	(3,750)
Increase (decrease) in:		
Accounts payable	22,755	21,553
Payable to grant subrecipients	(25,131)	25,695
Deferred revenue	56,450	78,251
Accrued vacation	12,804	13,171
Other accrued liabilities	27,290	29,390
Total adjustments	<u>(34,288)</u>	<u>241,502</u>
Net cash provided by operating activities	<u>254,566</u>	<u>287,141</u>
<b>Cash flows from investing activities</b>		
Acquisition of equipment and improvements	<u>(57,249)</u>	<u>(77,611)</u>
Net cash used in investing activities	<u>(57,249)</u>	<u>(77,611)</u>
<b>Cash flows from financing activities</b>		
Pledge receivable collected	<u>48,207</u>	<u>48,564</u>
Net cash provided by financing activities	<u>48,207</u>	<u>48,564</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	245,524	258,094
<b>Cash and cash equivalents at beginning of year</b>	<u>2,006,637</u>	<u>1,748,543</u>
<b>Cash and cash equivalents at end of year</b>	\$ <u>2,252,161</u>	\$ <u>2,006,637</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 1,283	\$ 677

See accompanying notes to financial statements.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE A - NATURE OF ACTIVITIES**

Waikiki Health (Center) was incorporated in the State of Hawaii (State) on February 12, 1971, to provide low cost primary health care across Oahu, Hawaii, including medical services, health education, and community services. Revenues are primarily from government grants, contributions, and patient service fees. Revenue from the Medicaid program accounts for the majority of the Center's net patient revenue.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

- (1) ***Basis of accounting and financial statement presentation*** - The financial statements of the Center have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Net assets, public support and revenues and expenses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

*Unrestricted* - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

*Temporarily Restricted* - Net assets whose use by the Center is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Center pursuant to those stipulations.

*Permanently Restricted* - Net assets whose use is limited by donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Center. The Center did not have any permanently restricted net assets.

- (2) ***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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (3) ***Cash and cash equivalents*** - The Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (4) ***Patient accounts receivable*** - The Center's patient accounts receivable balances represent amounts due from patients and medical plans for services rendered to eligible individuals. Payments of accounts receivable for patient services are allocated to the specific invoices identified on the remittance advice or if unspecified, are applied to the earliest unpaid invoices.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The patient accounts receivable balance is stated at the amount management expects to collect from outstanding balances based upon prior experience. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience. Patient accounts receivable balances dated over 30 days old are generally considered delinquent. Balances with no payment activity for the last 180 days are reviewed by management to determine if the account should be written-off through a charge to a valuation allowance and a credit to patient accounts receivable. Because of the inherent uncertainties in estimating the valuation allowance, it is at least reasonably possible that the estimates used will change in the near term.

- (5) **Promises to give** - Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give are recorded at the net realizable value if expected to be collected within one year and at present value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.
- (6) **Pharmacy inventories** - Pharmacy inventories are stated at the lower of cost or market. Cost of inventories is determined using the first-in first-out method.
- (7) **Property and equipment** - Property and equipment acquisitions of \$1,000 or more are recorded at cost. Donated assets are recorded at their estimated fair value at the date of the gift. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets which range from 5 to 28 years for leasehold improvements and 3 to 5 years for all other fixed assets.

Expenditures for maintenance, repairs, and minor renewals are charged to expense; expenditures for betterments are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on the sale of assets are reflected in current operations.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-lived assets held and used by the Center are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

- (8) **Revenue and support over (under) expenses** - The statements of activities includes a performance indicator labeled revenue and support over (under) expenses. Changes in net assets which are excluded from the performance indicator include restricted contributions, contributions of long-lived assets, grants for capital expenditures and the release of certain net assets from restrictions.
- (9) **Restricted and unrestricted revenues and support** - Contributions, revenues and support are recorded in the period earned as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the grantor or donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

- (10) **Recognition of governmental grant revenues** - Government grants are received from the federal, state, and municipal governments. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues on fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. These revenues are generally considered exchange transactions, and are recorded as revenues of the unrestricted net asset class. Funding received in advance of the applicable revenue recognition criteria is recorded as deferred revenue in the statements of financial position.
- (11) **Net patient service revenue** - The Center has agreements with third-party payors and patients that provide for payments to the Center at amounts different from its established rates. The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients, the Center recognizes revenue on the basis of income sensitive discounted rates for services provided. On the basis of historical experience, a portion of the Center's uninsured patients will be unable to pay for the services provided. Thus, the Center records a provision for bad debts related to uninsured patients in the period the services are provided.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (12) **Medicare and Medicaid reimbursements** - Effective October 3, 2002, the Center was approved as a Federally Qualified Health Center (FQHC). With this designation, the Center is eligible to receive reimbursements based on costs incurred for eligible services rendered under Medicare claims. Reimbursement is at a tentative rate with final settlement determined after submission of annual cost reports.

The Center also renders services to its patients under contractual agreements with Medicaid managed care plans. Effective January 1, 2010, due to changes made in the way the State's QUEST program is administered, reimbursement through capitation payments was replaced by the direct reimbursement of services provided by the Center using an approved prospective payment system (PPS) rate.

- (13) **Donated services and materials** - Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. The Center received donated lab services from a local vendor and recognized the fair value of the donated services as in-kind contributions and expenses.

In addition, the Center also receives significant and essential donated services performed by various volunteers to support the Center's programs and activities. These services have not been reflected in the financial statements as the criteria for recognition were not met. All other donated materials are recorded at the estimated fair value at the date of donation.

- (14) **Functional allocation of expenses** - The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the total personnel costs of the various functions, a proportion of the direct costs or usage for items such as occupancy and depreciation.
- (15) **Income taxes** - The Center is exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code. The Center recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position after an audit based on the technical merits of the position. The Center has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

The Center is not subject to income taxes in the U.S. federal jurisdiction and the State. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Center is no longer subject to U.S. federal and state examinations by tax authorities for the years ended December 31, 2008 and prior.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (16) **Subsequent events** - Management has evaluated subsequent events through June 6, 2013, the date on which the financial statements were available to be issued. Except as disclosed in Note M, there were no subsequent events that required adjustment of or disclosure in the financial statements.
- (17) **Reclassifications** - Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**NOTE C - PLEDGE RECEIVABLE**

No pledge receivable amounts remained at December 31, 2012. Pledge receivables at December 31, 2011 consisted of the following:

	2011
Amounts due in less than one year	\$ 50,250
Amounts due in one to three years	--
	50,250
Less unamortized discount	1,582
	\$ <u>48,668</u>

**NOTE D - PATIENT SERVICE REVENUE**

Effective January 1, 2012, the Center implemented the amended provisions of Accounting Standards Codification (ASC) 954, *Health Care Entities*. As required by the guidance in ASC 954, the Center revised the presentation of the statement of activities by reclassifying the provision for bad debts associated with patient service revenue from an expense to a deduction from patient service revenue. Additionally, the Center has provided enhanced disclosures pertaining to patient service revenue and policies for recognizing revenue and assessing bad debts.

Patient service revenue by major payor sources, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the year ended December 31, 2012, is as follows:

	2012
Third-party payors	\$ 3,260,712
Self-pay payors	212,545
Total	\$ <u>3,473,257</u>

**NOTE E - DEFINED CONTRIBUTION PENSION PLAN**

The Center has a defined contribution pension plan that covers all full-time employees who are at least 18 years old and have completed at least one year of service or 1,000 hours. An employee becomes 100% vested after completing three years of service. Contributions by plan participants are voluntary.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE E - DEFINED CONTRIBUTION PENSION PLAN (Continued)**

The Center makes contributions on behalf of each eligible employee, provided the contribution does not exceed the prescribed Internal Revenue Service limits. The employer base contribution for each plan year equals 3% of the employee's compensation, whether or not the employee made salary reduction contributions, with an additional 2% employer contribution if the employee makes a salary reduction contribution of at least 1%. The Center's contributions to the plan for the years ended December 31, 2012 and 2011 amounted to approximately \$155,100 and \$135,700, respectively.

**NOTE F - LEASE COMMITMENTS**

The Center leases office and clinical space for its operations on Oahu under non-cancelable operating leases expiring on various dates through March 2037. The following is a schedule of minimum future rental payments under these operating leases, including general excise taxes and excluding other charges:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 191,000
2014	67,300
2015	59,400
2016	59,400
2017	59,400
Thereafter	<u>1,144,200</u>
	<u>\$ 1,580,700</u>

Rent expense for the years ended December 31, 2012 and 2011, was \$281,218 and \$263,069, respectively.

**NOTE G - DONATED SERVICES**

The Center uses lab services from a local vendor and received certain lab services free of charge. The Center recognized the fair value of the donated lab services as contribution revenue and medical supplies expense. During the years ended December 31, 2012 and 2011, the Center recorded approximately \$-0- and \$33,900, of in-kind contributions, respectively.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE H - TEMPORARILY RESTRICTED NET ASSETS**

Net assets are released from donor restrictions primarily by incurring expenses, which satisfy the restricted purposes, or after a specified date. Temporarily restricted net assets at December 31, 2012 and 2011, were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Breast health	\$ 12,500	\$ 13,500
HIV early intervention program	--	2,500
Homeless programs	12,500	22,714
Software for billing	--	40,000
CMED	--	47,000
Friendly neighbors program	--	5,000
Youth operations	16,500	43,214
Primary care services	31,600	29,865
Dental	78,763	--
Time and other restrictions	<u>--</u>	<u>93,038</u>
	<b>\$ <u>151,863</u></b>	<b>\$ <u>296,831</u></b>

**NOTE I - BOARD DESIGNATION**

The board of directors (Board) passed a resolution in June 2004 to restrict the Dr. M. Lou Hefley gift received in December 2000. The Board will designate the purpose and use of the gift based on the needs of the Center at a future date. This gift is presented as part of cash and cash equivalents as of December 31, 2012 and 2011, in the amount of \$23,069 and \$23,060, respectively.

**NOTE J - PROFESSIONAL LIABILITY INSURANCE**

The Center qualifies for malpractice insurance protection under the Federal Tort Claims Act (FTCA). The FTCA coverage provides liability protection, the equivalent of malpractice insurance, without cost of premiums or a monetary cap. Any claim filed in a state court would be defended on behalf of the Center by the Department of Justice at no cost to the Center. Any damages awarded to a plaintiff are paid by the federal government.

To provide coverage for claims or situations that may not be covered under the FTCA, the Center is also insured for professional liability risk up to \$1,000,000 per claim and \$3,000,000 annual aggregate on a claims-made basis with a zero deductible.

Management's opinion is that any claims will not have a material effect on the Center's financial position or results of operations.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE K - CONCENTRATIONS**

The Center maintains its cash and cash equivalent accounts at various commercial banks located in the State. Cash balances held in accounts at these banks are insured up to \$250,000 per account holder by the Federal Deposit Insurance Corporation (FDIC). In assessing its concentration of credit risk related to cash and cash equivalents, the Center places its cash and cash equivalents in financial institutions, which may at times exceed FDIC insurance limits.

**NOTE L - FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Waikiki Health**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**NOTE L - FAIR VALUE MEASUREMENTS (Continued)**

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Donated shares of stock are classified within Level 1 of the hierarchy because they are valued using observable inputs that reflect quoted prices for identical assets in active markets. These separate donations of stock were received in December of the respective years and liquidated as soon as practical, under the Center's investment policies, and as such, are presented as cash and cash equivalents on the statements of financial position at December 31, 2012 and 2011.

The methodology described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Center's assets measured at fair value on a recurring basis are summarized below:

	2012			
	Level 1	Level 2	Level 3	Total
Stocks	\$ <u>5,056</u>	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>5,056</u>
	2011			
	Level 1	Level 2	Level 3	Total
Stocks	\$ <u>10,119</u>	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>10,119</u>

**NOTE M - SUBSEQUENT EVENT**

In February 2013, the Center entered into a non-cancelable operating lease agreement for office and clinical space at 935 Makahiki Way that expires in 2028. The following is a schedule of minimum future rental payments under this operating lease, including general excise taxes and excluding other charges:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 25,900
2014	148,600
2015	152,100
2016	162,800
2017	166,900
Thereafter	<u>1,934,600</u>
	\$ <u>2,590,900</u>

## **SUPPLEMENTARY INFORMATION**

**Waikiki Health**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2012**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Health Centers Cluster (Note B)			
Consolidated Health Centers	93.224	--	\$ 530,250
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	--	<u>377,283</u>
			<u>907,533</u>
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Note B)	93.918	--	<u>395,588</u>
Pass-through the State Department of Health			
Family Planning Services	93.217	09-054	<u>154,320</u>
Community-Based Child Abuse Prevention Grants	93.590	12-047	<u>11,629</u>
Pass-through the State Department of Human Services and Hawaii Primary Care Association			
Medical Assistance Program	93.778	DHS-08-MQD-5163 DHS-12-MQD-626	37,974 <u>33,894</u> <u>71,868</u>
Pass-through the AIDS Community Care Team			
HIV Care Formula Grants	93.917	RWY21 RWY22	23,244 <u>29,854</u> <u>53,098</u>
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ <u>1,594,036</u></b>

**Waikiki Health**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended December 31, 2012**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through the City and County of Honolulu			
Homelessness Prevention and Rapid Re-housing Program	14.257	CT-DCS-1000064	\$ <u>(743)</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>(743)</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>1,593,293</u></b>

See accompanying notes to schedule of expenditures of federal awards.

**Waikiki Health**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2012**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of the Waikiki Health Center (Center) 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*. Because the schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the Center.

**NOTE B - SUBRECIPIENTS**

The Center provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Health Centers Cluster	93.224 & 93.527	\$ 115,314
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	<u>76,002</u>
		\$ <u>191,316</u>

**Waikiki Health**  
**SCHEDULE OF CONTRACTS WITH THE DEPARTMENT**  
**OF HEALTH OF THE STATE OF HAWAII**  
**Year Ended December 31, 2012**

	<u>Federal Funds</u>	<u>State Funds</u>	<u>Total</u>
<b>Contract Number 09-054 (FP-Clinical)</b>			
Contract amount	\$ <u>84,529</u>	\$ <u>19,500</u>	\$ <u>104,029</u>
Contract expenses - current period	\$ <u>57,462</u>	\$ <u>19,500</u>	\$ <u>76,962</u>
<b>Contract Number 09-054 (FP-Health Education)</b>			
Contract amount	\$ <u>41,721</u>	\$ <u>    --</u>	\$ <u>41,721</u>
Contract expenses - current period	\$ <u>24,100</u>	\$ <u>    --</u>	\$ <u>24,100</u>
<b>Contract Number 09-054 (FP-HIV Rapid Testing)</b>			
Contract amount	\$ <u>97,511</u>	\$ <u>    --</u>	\$ <u>97,511</u>
Contract expenses - current period	\$ <u>72,758</u>	\$ <u>    --</u>	\$ <u>72,758</u>
<b>Contract Number 10-014 (Uninsured PC)</b>			
Contract amount	\$ <u>    --</u>	\$ <u>874,358</u>	\$ <u>874,358</u>
Contract expenses - current period	\$ <u>    --</u>	\$ <u>283,405</u>	\$ <u>283,405</u>
<b>Contract Number 10-096 (Substance Abuse Treatment)</b>			
Contract amount	\$ <u>    --</u>	\$ <u>1,479,916</u>	\$ <u>1,479,916</u>
Contract expenses - current period	\$ <u>    --</u>	\$ <u>342,099</u>	\$ <u>342,099</u>
<b>Contract Number 12-047 (Perinatal Support Services and Triage)</b>			
Contract amount	\$ <u>25,000</u>	\$ <u>46,500</u>	\$ <u>71,500</u>
Contract expenses - current period	\$ <u>11,629</u>	\$ <u>23,085</u>	\$ <u>34,714</u>

**PART II**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Waikiki Health

We have audited, 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, the financial statements of Waikiki Health (Center), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 June 6, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*N&K CPAs, Inc.*

Honolulu, Hawaii  
June 6, 2013

**PART III**

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE**

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

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Waikiki Health

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

We have audited Waikiki Health's (Center) 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 the Center's major federal programs for the year ended December 31, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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 the Center's compliance.

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

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of the Center 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 the Center'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center'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 a 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*N&K CPAs, Inc.*

Honolulu, Hawaii

June 6, 2013

**PART IV**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Waikiki Health**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2012**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

CFDA Number	Name of Federal Program
93.224 & 93.527	Health Centers Cluster
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

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

Auditee qualified as low-risk auditee?  yes  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**PART V**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Waikiki Health  
STATUS REPORT  
Year Ended December 31, 2012**

No prior audit findings which apply under the current criteria of OMB Circular A-133 were noted.