

WAIKIKI HEALTH

MEDICAL & DENTAL • PREVENTIVE CARE • SOCIAL SERVICES

Waikiki Health

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITOR'S REPORTS

Years Ended December 31, 2014 and 2013



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

WAIKIKI HEALTH

TABLE OF CONTENTS

	<u>Page</u>
PART I FINANCIAL SECTION	
Independent Auditor's Report	5 - 7
Financial Statements	
Statements of Financial Position	8
Statements of Activities	9 - 10
Statements of Functional Expenses	11 - 12
Statements of Cash Flows	13 - 14
Notes to Financial Statements	15 - 21
Supplementary Information	
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Schedule of Contracts with the Department of Health of the State of Hawaii	25
Schedule of Contracts with the Department of Human Services of the State of Hawaii	26
 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 <i>Government Auditing Standards</i>	28 - 29

WAIKIKI HEALTH

TABLE OF CONTENTS

	<u>Page</u>
PART III REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE	
Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	31 - 33
PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS	35 - 36
PART V SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
Status Report	38

PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S 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, 2014 and 2013, 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 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 the Center as of December 31, 2014 and 2013, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedules of contracts with the Department of Health and the Department of Human Services of the State of Hawaii, as required by the State of Hawaii, are presented for purposes of additional analysis 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 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 June 9, 2015 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 9, 2015

Waikiki Health
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,606,911	\$ 1,165,690
Grants receivable	658,398	1,673,864
Patient accounts receivable, net of allowance for doubtful accounts of \$75,568 in 2014 and \$48,000 in 2013	266,088	436,372
Other receivable	62,500	--
Inventories	43,797	37,106
Prepaid expenses	139,308	215,589
Total current assets	2,777,002	3,528,621
PROPERTY AND EQUIPMENT		
Equipment and furniture	1,030,336	490,207
Vehicles	223,118	215,578
Software	435,945	390,362
Leasehold improvements	1,737,870	733,050
	3,427,269	1,829,197
Less accumulated depreciation	1,253,950	1,025,575
	2,173,319	803,622
Construction in progress	--	862,751
	2,173,319	1,666,373
OTHER ASSETS		
Deposits	68,632	77,748
	\$ 5,018,953	\$ 5,272,742
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of note payable	\$ 16,116	\$ 16,116
Accounts payable	196,687	487,853
Accrued vacation	176,333	146,886
Payable to grant subrecipients	1,627	39,763
Deferred revenue	340,907	136,495
Other accrued liabilities	341,287	301,941
Total current liabilities	1,072,957	1,129,054
LONG-TERM OBLIGATIONS		
Note payable, less current maturities	2,834	19,807
Deferred lease rent	74,472	--
Total liabilities	1,150,263	1,148,861
NET ASSETS		
Unrestricted	3,856,190	3,809,974
Temporarily restricted	12,500	313,907
	3,868,690	4,123,881
	\$ 5,018,953	\$ 5,272,742

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF ACTIVITIES
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Patient service revenue (net of contractual allowances and discounts)	\$ 5,130,497	\$ --	\$ 5,130,497
Provision for bad debt	<u>258,548</u>	<u>--</u>	<u>258,548</u>
Net patient service revenue	4,871,949	--	4,871,949
Grants from governmental agencies	4,584,032	--	4,584,032
Pharmacy sales	2,299,723	--	2,299,723
Contributions - unrestricted	347,546	--	347,546
Other income	308,501	--	308,501
Net assets released from restrictions			
Satisfied by payments	<u>847,047</u>	<u>(847,047)</u>	<u>--</u>
Total revenue and support	<u>13,258,798</u>	<u>(847,047)</u>	<u>12,411,751</u>
EXPENSES			
Program services	12,042,610	--	12,042,610
Supporting services			
Management and general	702,049	--	702,049
Fundraising	<u>490,018</u>	<u>--</u>	<u>490,018</u>
Total expenses	<u>13,234,677</u>	<u>--</u>	<u>13,234,677</u>
Revenue and support over (under) expenses	<u>24,121</u>	<u>(847,047)</u>	<u>(822,926)</u>
OTHER SUPPORT			
Grants from governmental agencies for property and equipment	22,095	--	22,095
Contributions - temporarily restricted	<u>--</u>	<u>545,640</u>	<u>545,640</u>
	<u>22,095</u>	<u>545,640</u>	<u>567,735</u>
CHANGE IN NET ASSETS	46,216	(301,407)	(255,191)
NET ASSETS AT BEGINNING OF YEAR	<u>3,809,974</u>	<u>313,907</u>	<u>4,123,881</u>
NET ASSETS AT END OF YEAR	\$ <u><u>3,856,190</u></u>	\$ <u><u>12,500</u></u>	\$ <u><u>3,868,690</u></u>

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF ACTIVITIES (Continued)
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Patient service revenue (net of contractual allowances and discounts)	\$ 3,935,813	\$ --	\$ 3,935,813
Provision for bad debt	<u>42,851</u>	<u>--</u>	<u>42,851</u>
Net patient service revenue	3,892,962	--	3,892,962
Grants from governmental agencies	4,358,121	--	4,358,121
Pharmacy sales	1,832,148	--	1,832,148
Contributions - unrestricted	298,250	--	298,250
Other income	210,857	--	210,857
Net assets released from restrictions			
Satisfied by payments	<u>281,676</u>	<u>(281,676)</u>	<u>--</u>
Total revenue and support	<u>10,874,014</u>	<u>(281,676)</u>	<u>10,592,338</u>
EXPENSES			
Program services	9,689,910	--	9,689,910
Supporting services			
Management and general	926,567	--	926,567
Fundraising	<u>421,743</u>	<u>--</u>	<u>421,743</u>
Total expenses	<u>11,038,220</u>	<u>--</u>	<u>11,038,220</u>
Revenue and support over (under) expenses	<u>(164,206)</u>	<u>(281,676)</u>	<u>(445,882)</u>
OTHER SUPPORT			
Grants from governmental agencies for property and equipment	452,283	--	452,283
Contributions - temporarily restricted	<u>--</u>	<u>443,720</u>	<u>443,720</u>
	<u>452,283</u>	<u>443,720</u>	<u>896,003</u>
CHANGE IN NET ASSETS	288,077	162,044	450,121
NET ASSETS AT BEGINNING OF YEAR	<u>3,521,897</u>	<u>151,863</u>	<u>3,673,760</u>
NET ASSETS AT END OF YEAR	\$ <u>3,809,974</u>	\$ <u>313,907</u>	\$ <u>4,123,881</u>

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	PROGRAM SERVICES									SUPPORTING SERVICES				
	Primary		STD/	Youth	Homeless	HIV	Waikiki			Management				
	Care	Pharmacy	AIDS	Outreach	Services	Early	Friendly	PATH	Dental	and	Fundraising	Total	TOTAL	
Salaries and related expenses	\$ 4,160,753	\$ 515,852	\$ 380,715	\$ 139,130	\$ 2,044,938	\$ 282,579	\$ 44,620	\$ 225,959	\$ 633,169	\$ 8,427,715	\$ 197,037	\$ 327,326	\$ 524,363	\$ 8,952,078
Grants to other organizations	--	--	49,690	--	(12,762)	--	--	--	--	36,928	--	--	--	36,928
Depreciation	221,016	--	--	129	7,230	--	--	--	--	228,375	--	--	--	228,375
Dues and subscriptions	3,530	2,888	135	500	(1,917)	--	--	--	956	6,092	47,328	718	48,046	54,138
Equipment purchase	--	780	--	--	--	588	--	1,433	--	2,801	2,554	--	2,554	5,355
Insurance	--	--	--	--	--	--	--	--	--	--	42,304	--	42,304	42,304
Interest expense	196	--	--	--	15	1	--	--	--	212	1,146	--	1,146	1,358
Marketing	--	--	--	--	--	--	--	--	--	--	1,344	47,805	49,149	49,149
Meetings	1,091	17	437	--	113	--	--	--	--	1,658	29,028	16,072	45,100	46,758
Penalties	120	37	--	--	30	--	--	--	--	187	198	--	198	385
Pharmaceutical supplies	--	1,000,249	--	--	--	--	--	--	--	1,000,249	--	--	--	1,000,249
Postage and delivery	8,250	768	11	--	176	68	--	--	--	9,273	3,452	7,422	10,874	20,147
Printing	1,738	--	52	188	3,340	597	--	482	461	6,858	152	45,632	45,784	52,642
Professional fees	455,838	14,130	17,928	6,329	91,788	6,021	--	98,687	101,220	791,941	147,673	15,952	163,625	955,566
Registration fees	--	60	--	343	2,010	339	--	--	--	2,752	494	--	494	3,246
Rent	296,506	6,687	8,401	6,000	97,290	21,811	3,713	23,774	59,384	523,566	70,833	15,524	86,357	609,923
Repair and maintenance	204,893	13,083	461	2,196	85,668	731	48	6,808	19,295	333,183	54,472	2,146	56,618	389,801
Supplies	139,360	7,056	23,870	9,041	105,677	2,454	53	10,960	74,954	373,425	9,100	2,055	11,155	384,580
Telephone and internet	38,018	1,803	1,015	1,217	21,200	4,503	562	3,112	4,573	76,003	8,448	1,353	9,801	85,804
Training	43,040	749	341	319	2,473	773	--	--	225	47,920	32,674	1,138	33,812	81,732
Transportation	10,707	--	441	1,144	16,423	5,675	8	474	1,650	36,522	7,031	811	7,842	44,364
Travel	3,383	1,737	1,380	--	2,392	14,412	--	--	--	23,304	21,060	--	21,060	44,364
Utilities	56,963	1,586	1,586	--	34,734	8,090	1,196	--	9,491	113,646	25,721	6,064	31,785	145,431
Total functional expenses	\$ 5,645,402	\$ 1,567,482	\$ 486,463	\$ 166,536	\$ 2,500,818	\$ 348,642	\$ 50,200	\$ 371,689	\$ 905,378	\$ 12,042,610	\$ 702,049	\$ 490,018	\$ 1,192,067	\$ 13,234,677

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
Year Ended December 31, 2013

	PROGRAM SERVICES										SUPPORTING SERVICES			TOTAL	
	Primary	Pharmacy	STD/ AIDS	Youth	Homeless Services	HIV	Waikiki	Ho'ola	PATH	Dental	Total	Management and			
	Care			Outreach Services		Early Intervention	Friendly Neighbors	Like Project				General	Fundraising		
Salaries and related expenses	\$ 3,359,591	\$ 373,380	\$ 366,782	\$ 147,370	\$ 2,203,741	\$ 274,726	\$ 34,435	\$ 38,907	\$ 191,462	\$ 4,055	\$ 6,994,449	\$ 162,804	\$ 285,491	\$ 448,295	\$ 7,442,744
Grants to other organizations	--	--	22,022	--	41,063	--	--	--	--	--	63,085	--	--	--	63,085
Depreciation	83,162	--	--	20,660	1,438	--	--	--	--	--	105,260	25,106	392	25,498	130,758
Dues and subscriptions	4,536	2,209	75	325	7,735	7	57	--	25	50	15,019	32,735	247	32,982	48,001
Equipment purchase	13,054	772	--	7,592	5,205	1,045	--	794	1,110	12,499	42,071	5,076	--	5,076	47,147
Insurance	801	--	--	--	--	--	--	--	--	--	801	35,610	--	35,610	36,411
Interest expense	2	--	--	--	22	3	1	--	--	--	28	289	6	295	323
Marketing	--	--	--	--	--	--	--	--	--	--	--	1,119	26,269	27,388	27,388
Meetings	623	21	259	--	973	--	--	--	--	--	1,876	17,137	3,766	20,903	22,779
Penalties	77	210	1	--	184	28	4	3	--	--	507	727	33	760	1,267
Pharmaceutical supplies	--	659,437	--	--	--	--	--	--	--	--	659,437	--	--	--	659,437
Postage and delivery	9,253	728	89	--	643	238	6	92	10	--	11,059	1,650	7,670	9,320	20,379
Printing	3,784	42	175	10	2,346	796	72	--	195	--	7,420	111	35,249	35,360	42,780
Professional fees	188,750	31,985	33,603	5,367	87,981	9,853	1,640	1,380	91,802	4,658	457,019	447,875	18,881	466,756	923,775
Registration fees	992	168	--	--	2,010	339	--	--	--	--	3,509	3,745	8	3,753	7,262
Rent	148,534	6,042	7,750	6,240	85,879	20,323	3,329	1,799	23,070	--	302,966	98,171	26,418	124,589	427,555
Repair and maintenance	167,022	10,964	1,968	2,816	99,028	2,719	1,025	1,188	8,290	1,354	296,374	21,025	6,055	27,080	323,454
Supplies	243,347	6,050	38,340	10,254	123,587	46,460	309	1,925	10,233	19,061	499,566	10,384	3,132	13,516	513,082
Telephone and internet	19,114	1,937	1,690	1,208	23,011	4,976	980	1,462	2,248	--	56,626	6,101	1,456	7,557	64,183
Training	7,592	749	469	455	2,880	75	--	--	627	--	12,847	15,726	1,596	17,322	30,169
Transportation	10,000	--	379	869	15,932	7,054	51	851	507	--	35,643	1,943	413	2,356	37,999
Travel	6,375	1,242	996	--	6,877	18,213	--	--	--	--	33,703	20,688	--	20,688	54,391
Utilities	50,167	1,634	2,178	--	29,782	5,806	1,020	58	--	--	90,645	18,545	4,661	23,206	113,851
Total functional expenses	\$ 4,316,776	\$ 1,097,570	\$ 476,776	\$ 203,166	\$ 2,740,317	\$ 392,661	\$ 42,929	\$ 48,459	\$ 329,579	\$ 41,677	\$ 9,689,910	\$ 926,567	\$ 421,743	\$ 1,348,310	\$ 11,038,220

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities		
Change in net assets	\$ <u>(255,191)</u>	\$ <u>450,121</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	228,375	130,758
Provision for bad debt	258,548	42,851
Grants restricted for long-term purposes	(530,000)	(334,939)
(Increase) decrease in:		
Grants receivable	1,015,466	(791,291)
Patient accounts receivable	(88,264)	(104,139)
Other receivable	(62,500)	--
Inventories	(6,691)	(8,327)
Prepaid expenses	76,281	(91,451)
Other assets	9,116	(47,516)
Increase (decrease) in:		
Accounts payable	(30,334)	82,403
Payable to grant subrecipients	(38,136)	(189)
Deferred revenue	204,412	(74,902)
Accrued vacation	29,447	19,137
Other accrued liabilities	39,346	19,155
Deferred rent	<u>74,472</u>	<u>--</u>
Total adjustments	<u>1,179,538</u>	<u>(1,158,450)</u>
Net cash provided by (used in) operating activities	<u>924,347</u>	<u>(708,329)</u>
Cash flows from investing activities		
Payments for the acquisition of equipment and improvements	<u>(996,153)</u>	<u>(700,351)</u>
Net cash used in investing activities	<u>(996,153)</u>	<u>(700,351)</u>
Cash flows from financing activities		
Grants restricted for long-term purposes	530,000	334,939
Principal payments on note payable	<u>(16,973)</u>	<u>(12,730)</u>
Net cash provided by financing activities	<u>513,027</u>	<u>322,209</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	441,221	(1,086,471)
Cash and cash equivalents at beginning of year	<u>1,165,690</u>	<u>2,252,161</u>
Cash and cash equivalents at end of year	\$ <u>1,606,911</u>	\$ <u>1,165,690</u>

See accompanying notes to financial statements.

Waikiki Health
STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 1,358	\$ 323
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of a vehicle financed by a note payable	\$ --	\$ 48,653
Acquisition of property and equipment incurred and payable at year end	\$ 7,861	\$ 268,693

See accompanying notes to financial statements.

Waikiki Health
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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. The Center receives the majority of its revenues 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 health 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, 2014 and 2013

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 debt. 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 debt, 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 debt 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) **Inventories** - Pharmacy inventories, consisting primarily of prescription and over-the-counter medications, are stated at current replacement costs as of the date of the financial statements.
- (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 and amortization are 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, 2014 and 2013

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) **Performance indicator** - 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 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 debt related to uninsured patients in the period the services are provided.

Waikiki Health
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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 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. 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 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.
- (16) **Reclassifications** - Certain prior year amounts were reclassified to conform to the 2014 presentation. Such reclassifications had no effect on previously reported change in net assets.
- (17) **Subsequent events** - Management has evaluated subsequent events through June 9, 2015, the date on which the financial statements were available to be issued. There were no subsequent events that required adjustment of or disclosure in the financial statements.

Waikiki Health
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE C - LINE OF CREDIT

The Center has a \$500,000 revolving line of credit with a bank bearing interest at the bank's base rate plus 1.00% (5.50% at December 31, 2014). The credit line expires in December 2015 and is secured by substantially all of the Center's personal property. At December 31, 2014 and 2013, there were no borrowings on this line of credit.

NOTE D - CONCENTRATION OF CREDIT RISK

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 E - PATIENT SERVICE REVENUE

Patient service revenue by major payor sources, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Third-party payors	\$ 4,834,712	\$ 3,760,467
Self-pay payors	<u>295,785</u>	<u>175,346</u>
Total	\$ <u>5,130,497</u>	\$ <u>3,935,813</u>

NOTE F - NOTE PAYABLE

The Center's note payable as of December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Note payable to an automotive dealer maturing in 2016; with monthly payments of principal and interest at 2.9%, secured by the vehicle purchased therewith.	\$ 18,950	\$ 35,923
Less current maturities	<u>16,116</u>	<u>16,116</u>
	\$ <u>2,834</u>	\$ <u>19,807</u>

Waikiki Health
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE F - NOTE PAYABLE (Continued)

The aggregate maturities of the note payable for future years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 16,116
2016	<u>2,834</u>
	<u>\$ 18,950</u>

NOTE G - 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 and 1,000 hours. An employee becomes 100% vested after completing three years of service. Contributions by plan participants are voluntary. 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, with an additional 2% employer contribution if the employee makes a salary reduction contribution of at least 1%. Effective January 1, 2015, the Center provides elective matching contributions to eligible participants in an amount equal to 500% of a participant's contributions during the plan year that does not exceed a salary reduction contribution percentage of 1% of compensation during the plan year. The Center's contributions to the plan for the years ended December 31, 2014 and 2013 amounted to approximately \$233,679 and \$211,315, respectively.

NOTE H - 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>
2015	\$ 362,100
2016	375,900
2017	365,900
2018	364,100
2019	281,400
Thereafter	<u>3,417,900</u>
	<u>\$ 5,167,300</u>

Rent expense for the years ended December 31, 2014 and 2013, was \$609,924 and \$427,555, respectively.

Waikiki Health
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE I - 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, 2014 and 2013, were available for the following purposes:

	2014	2013
Homeless programs	\$ 12,500	\$ 12,500
Youth operations	--	19,500
Makahiki	--	84,373
Dental	--	197,534
	\$ <u>12,500</u>	\$ <u>313,907</u>

NOTE J - 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. In June 2014, the Board removed the restriction from the gift so that it could potentially be used for the pharmacy expansion. This gift is presented as part of cash and cash equivalents as of December 31, 2014 and 2013, in the amount of \$23,083 and \$23,076, respectively.

NOTE K - 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 qualified claim filed must go through federal court and 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 change in net assets.

SUPPLEMENTARY INFORMATION

Waikiki Health
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

<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>
U.S. Department of Health and Human Services			
Health Centers Cluster			
Consolidated Health Centers	93.224	--	\$ 963,926
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	--	<u>95,197</u>
			<u>1,059,123</u>
Pass-through the State Department of Health			
Family Planning Services	93.217	13-097	<u>116,448</u>
Pass-through the AIDS Community Care Team			
HIV Care Formula Grants	93.917	RWY23 Chow	90,832
			<u>38,562</u>
			<u>129,394</u>
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Note B)	93.918	--	<u>323,779</u>
Total U.S. Department of Health and Human Services			<u>1,628,744</u>
U.S. Department of Housing and Urban Development			
Pass-through the City and County of Honolulu			
Community Development Block Grants/Entitlement Grants	14.218	--	<u>22,095</u>
Total U.S. Department of Housing and Urban Development			<u>22,095</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>1,650,839</u>

Waikiki Health
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activities of Waikiki Health (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 the following subrecipient:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	\$ 48,063

Waikiki Health
SCHEDULE OF CONTRACTS WITH THE DEPARTMENT
OF HEALTH OF THE STATE OF HAWAII
Year Ended December 31, 2014

	Federal Funds	State Funds	Total
Contract Number 13-097 (FP-Clinical)			
Contract amount	\$ <u>241,641</u>	\$ <u>42,000</u>	\$ <u>283,641</u>
Contract expenses - prior period	\$ 81,102	\$ --	\$ 81,102
Contract expenses - current period	<u>97,338</u>	<u>--</u>	<u>97,338</u>
Total contract expenses	\$ <u>178,440</u>	\$ <u>--</u>	\$ <u>178,440</u>
Contract Number 13-097 (FP-Health Education)			
Contract amount	\$ <u>34,754</u>	\$ <u>49,000</u>	\$ <u>83,754</u>
Contract expenses - prior period	\$ 25,785	\$ --	\$ 25,785
Contract expenses - current period	<u>19,111</u>	<u>--</u>	<u>19,111</u>
Total contract expenses	\$ <u>44,896</u>	\$ <u>--</u>	\$ <u>44,896</u>
Contract Number 10-014 (Uninsured PC)			
Contract amount	\$ <u>**</u>	\$ <u>**</u>	\$ <u>**</u>
Units billed - prior period	\$ --	\$ 166,760	\$ 166,760
Units billed - current period	<u>--</u>	<u>--</u>	<u>--</u>
Total units billed	\$ <u>--</u>	\$ <u>166,760</u>	\$ <u>166,760</u>
Contract Number 14-011 (Uninsured PC)			
Contract amount	\$ <u>**</u>	\$ <u>**</u>	\$ <u>**</u>
Units billed - prior period	\$ --	\$ 154,645	\$ 154,645
Units billed - current period	<u>--</u>	<u>276,190</u>	<u>276,190</u>
Total units billed	\$ <u>--</u>	\$ <u>430,835</u>	\$ <u>430,835</u>
Contract Number 10-096 (Substance Abuse Treatment)			
Contract amount	\$ <u>--</u>	\$ <u>359,833</u>	\$ <u>359,833</u>
Contract expenses - prior period	\$ --	\$ 200,407	\$ 200,407
Contract expenses - current period	<u>--</u>	<u>--</u>	<u>--</u>
Total contract expenses	\$ <u>--</u>	\$ <u>200,407</u>	\$ <u>200,407</u>
Contract Number 14-063 (Substance Abuse Treatment)			
Contract amount	\$ <u>--</u>	\$ <u>757,658</u>	\$ <u>757,658</u>
Contract expenses - prior period	\$ --	\$ 188,737	\$ 188,737
Contract expenses - current period	<u>--</u>	<u>369,269</u>	<u>369,269</u>
Total contract expenses	\$ <u>--</u>	\$ <u>558,006</u>	\$ <u>558,006</u>

** Compensation is based on a per-unit rate schedule, subject to the availability of funding.

Waikiki Health
SCHEDULE OF CONTRACTS WITH THE DEPARTMENT
OF HUMAN SERVICES OF THE STATE OF HAWAII
Year Ended December 31, 2014

	Federal Funds	State Funds	Total
Contract No. DHS-12-HPO-594-SA01			
Contract amount	\$ <u> --</u>	\$ <u> 480,000</u>	\$ <u> 480,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> 280,000</u>	\$ <u> 280,000</u>
Contract expenses - current period	<u> --</u>	<u> --</u>	<u> --</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 280,000</u>	\$ <u> 280,000</u>
Contract No. DHS-14-HPO-1010			
Contract amount	\$ <u> --</u>	\$ <u> 480,000</u>	\$ <u> 480,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> 200,000</u>	\$ <u> 200,000</u>
Contract expenses - current period	<u> --</u>	<u> 290,000</u>	<u> 290,000</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 490,000</u>	\$ <u> 490,000</u>
Contract No. DHS-14-HPO-1010-SA02			
Contract amount	\$ <u> --</u>	\$ <u> 480,000</u>	\$ <u> 480,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> --</u>	\$ <u> --</u>
Contract expenses - current period	<u> --</u>	<u> 190,000</u>	<u> 190,000</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 190,000</u>	\$ <u> 190,000</u>
Contract No. DHS-12-HPO-579-SA01			
Contract amount	\$ <u> --</u>	\$ <u> 1,280,000</u>	\$ <u> 1,280,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> 671,141</u>	\$ <u> 671,141</u>
Contract expenses - current period	<u> --</u>	<u> --</u>	<u> --</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 671,141</u>	\$ <u> 671,141</u>
Contract No. DHS-14-HPO-1013			
Contract amount	\$ <u> --</u>	\$ <u> 1,274,000</u>	\$ <u> 1,274,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> 482,494</u>	\$ <u> 482,494</u>
Contract expenses - current period	<u> --</u>	<u> 697,626</u>	<u> 697,626</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 1,180,120</u>	\$ <u> 1,180,120</u>
Contract No. DHS-14-HPO-1013-SA02			
Contract amount	\$ <u> --</u>	\$ <u> 1,274,000</u>	\$ <u> 1,274,000</u>
Contract expenses - prior period	\$ <u> --</u>	\$ <u> --</u>	\$ <u> --</u>
Contract expenses - current period	<u> --</u>	<u> 461,676</u>	<u> 461,676</u>
Total contract expenses	\$ <u> --</u>	\$ <u> 461,676</u>	\$ <u> 461,676</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 AUDITOR'S 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 statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2015.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 and therefore, material weaknesses and significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

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 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.

N&K CPAs, Inc.

Honolulu, Hawaii

June 9, 2015

PART III

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

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

INDEPENDENT AUDITOR'S 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, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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, 2014.

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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 9, 2015

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Waikiki Health
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
--	---	-----------------------------

Waikiki Health
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended December 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref.
No. **Internal Control Finding**

2014-001 Strengthen Internal Controls over Pharmacy Operations

Condition: During the year ended December 31, 2014, pharmacy revenue and related costs of sales totaled \$2,300,000 and \$1,000,000, respectively. We noted that the design of the Center's internal controls over pharmacy operations does not include a reconciliation of pharmacy-related purchases, inventory or accounts receivable recorded in the pharmacy management software to amounts recorded in the general ledger, which is a separate accounting system.

Criteria: Subsidiary accounting information generated from the pharmacy management software should be reconciled to the general ledger on a monthly basis by an employee that is not responsible for authorizing pharmaceutical purchases, handling pharmacy-related assets (e.g. cash or prescription drugs), or recording transactions in the pharmacy management software.

Cause: The design of internal controls over pharmacy operations does not entirely mitigate the lack of segregation of duties that is the result of the limited number of personnel within the pharmacy department.

Effect: There is a reasonable possibility that a misstatement of the Center's financial statements will not be prevented, or detected and corrected, on a timely basis. Potential misstatements could result from either errors or the misappropriation of the Center's assets.

Recommendation

Management should strengthen internal controls over pharmacy operations by designing and implementing procedures to reconcile pharmacy-related accounts and transactions recorded in the pharmacy management software to amounts recorded in the general ledger. This procedure should be performed on a monthly basis by an employee within the Center's finance department who is not responsible for authorizing pharmaceutical purchases, handling pharmacy-related assets, or recording transactions in the pharmacy management software.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Waikiki Health
STATUS REPORT
Year Ended December 31, 2014**

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