



**Whitman-Walker Clinic, Inc.  
dba Whitman-Walker Health**

**Financial Statements,  
Schedule of Expenditures of Federal  
Awards, and Reports Required by  
*Government Auditing Standards* and  
OMB Circular A-133  
Years Ended December 31, 2012 and 2011**

Whitman-Walker Clinic, Inc.  
dba Whitman-Walker Health

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Years Ended December 31, 2012 and 2011

# Whitman-Walker Health

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## Independent Auditor's Report

To the Board of Directors  
Whitman-Walker Clinic, Inc.  
dba Whitman Walker Health  
Washington, D.C.

We have audited the accompanying financial statements of Whitman-Walker Clinic, Inc. dba Whitman Walker Health (WWH), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to WWH'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 WWH'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 Whitman-Walker Health as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### ***Other Matters***

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* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The 2011 financial statements of Whitman-Walker Health were audited by other auditors whose report dated May 30, 2012 expressed an unqualified opinion on those statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013 on our consideration of WWH'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 WWH's internal control over financial reporting and compliance.

BDO USA, LLP

June 26, 2013

## Financial Statements

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# Whitman-Walker Health

## Statements of Financial Position

December 31,	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 2,085,977	\$ 1,049,482
Accounts receivable:		
Grants and contracts	842,915	882,619
Related entity, net of allowance for uncollectible amounts of \$121,862 for 2012 and 2011	67,025	67,025
Medicaid and other third parties, net of allowance for uncollectible amounts of \$219,769 and \$205,748 for 2012 and 2011, respectively	557,509	561,491
Pharmacy, net of allowance for uncollectible amounts of \$8,244 and \$51,666 for 2012 and 2011, respectively	775,604	735,266
Other	748,941	490,353
Inventory	1,532,247	1,307,270
Prepaid expenses and other assets	45,879	39,253
Total current assets	6,656,097	5,132,759
Property and equipment, net	6,687,015	6,764,998
Other assets	512,650	2,000
<b>Total assets</b>	<b>\$ 13,855,762</b>	<b>\$ 11,899,757</b>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,299,310	\$ 2,872,585
Equipment and insurance financing agreements, current portion	-	66,504
Refundable advances	374,738	359,559
Deferred revenue	-	3,000
Total current liabilities	2,674,048	3,301,648
<b>Long-term liabilities</b>		
Amount due third party vendor for pharmacy operating capital, net of current portion	191,212	268,872
<b>Total liabilities</b>	<b>2,865,260</b>	<b>3,570,520</b>
<b>Commitments and contingencies (Notes 8 and 9)</b>		
<b>Net assets</b>		
Unrestricted		
Board-designated for endowment	2,381,448	2,452,407
Undesignated	8,605,465	5,866,830
Total unrestricted net assets	10,986,913	8,319,237
Temporarily restricted	3,589	10,000
<b>Total net assets</b>	<b>10,990,502</b>	<b>8,329,237</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,855,762</b>	<b>\$ 11,899,757</b>

*See accompanying notes to financial statements.*

## Whitman-Walker Health

### Statements of Activities

Years Ended December 31,	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Patient revenue</b>						
Net patient service revenues (Medicaid and third party revenue)	\$ 4,944,494	\$ -	\$ 4,944,494	\$ 4,487,365	\$ -	\$ 4,487,365
Sliding fee medical services	219,123	-	219,123	202,418	-	202,418
Pharmacy revenues	17,044,839	-	17,044,839	12,800,208	-	12,800,208
Total patient service revenue	22,208,456	-	22,208,456	17,489,991	-	17,489,991
<b>Public Support</b>						
Contracts and grants	5,651,107	-	5,651,107	5,693,592	-	5,693,592
Contributions	2,874,504	-	2,874,504	2,384,335	10,000	2,394,335
Special events	1,181,435	-	1,181,435	1,110,632	-	1,110,632
Cost of direct donor benefits	(32,100)	-	(32,100)	(36,976)	-	(36,976)
Net assets released from restrictions:						
Satisfaction of program restrictions	6,411	(6,411)	-	-	-	-
Total public support revenue	9,681,357	(6,411)	9,674,946	9,151,583	10,000	9,161,583
Other revenue	271,394	-	271,394	57,138	-	57,138
Total patient, public support and other revenue	32,161,207	(6,411)	32,154,796	26,698,712	10,000	26,708,712
<b>Expenses</b>						
Program Services						
Pharmacy	12,398,210	-	12,398,210	8,309,566	-	8,309,566
Medical services	3,090,305	-	3,090,305	2,920,611	-	2,920,611
Clinic operations	1,294,712	-	1,294,712	1,042,076	-	1,042,076
Behavioral/mental health	1,237,903	-	1,237,903	1,180,431	-	1,180,431
Research	983,766	-	983,766	939,695	-	939,695
Day treatment	960,349	-	960,349	914,650	-	914,650
Medical adherence	955,585	-	955,585	944,272	-	944,272
Legal	934,885	-	934,885	959,958	-	959,958
Dental health	646,986	-	646,986	635,281	-	635,281
Community health	642,558	-	642,558	687,729	-	687,729
Addictions/substance abuse	431,426	-	431,426	284,665	-	284,665
Public benefits	342,995	-	342,995	363,345	-	363,345
STD services	342,029	-	342,029	304,805	-	304,805
Total program services	24,261,709	-	24,261,709	19,487,084	-	19,487,084
Support Services						
Management and general	3,792,612	-	3,792,612	3,542,314	-	3,542,314
Fundraising	1,439,210	-	1,439,210	1,332,647	-	1,332,647
Total support services	5,231,822	-	5,231,822	4,874,961	-	4,874,961
Total expenses	29,493,531	-	29,493,531	24,362,045	-	24,362,045
Change in net assets	2,667,676	(6,411)	2,661,265	2,336,667	10,000	2,346,667
Net assets, beginning of year	8,319,237	10,000	8,329,237	5,982,570	-	5,982,570
Net assets, end of year	\$ 10,986,913	\$ 3,589	\$ 10,990,502	\$ 8,319,237	\$ 10,000	\$ 8,329,237

*See accompanying notes to financial statements.*

Whitman-Walker Health

Statements of Functional Expenses

Year Ended December 31, 2012	Program Services													Support Services			Total	
	Pharmacy	Medical Services	Clinic Operations	Behavioral/Mental Health	Research	Day Treatment	Medical Adherence	Legal	Dental Health	Community Health	Addictions/Substance Abuse	Public Benefits	STD Services	Total Program Services	Management and General	Fundraising		Total Support Services
Personnel expenses	\$ -	\$ 2,502,043	\$ 731,193	\$ 1,065,508	\$ 815,325	\$ 770,694	\$ 851,079	\$ 776,043	\$ 447,789	\$ 490,992	\$ 363,734	\$ 314,768	\$ 107,257	\$ 9,236,425	\$ 2,366,394	\$ 450,844	\$ 2,817,238	\$ 12,053,663
Subcontractors/consultants	-	2,995	185,549	21,303	27,757	3,107	250	422	40,702	422	-	719	2,931	285,735	179,166	(4,633)	174,533	460,268
Audit/professional services	-	2,695	-	-	-	-	-	2,450	8,502	-	-	-	68,502	82,149	499,759	-	499,759	581,908
Management fees	2,052,006	-	-	-	-	-	-	-	-	-	-	-	-	2,052,006	-	-	-	2,052,006
Medical supplies and lab fees	5,614	226,186	82,223	-	8,228	519	3,501	-	63,602	11,166	-	-	137,155	538,194	-	-	-	538,194
Pharmaceuticals	10,340,590	-	-	-	-	-	-	-	-	-	-	-	-	10,340,590	-	-	-	10,340,590
Facilities	-	204,309	105,748	80,061	59,074	66,591	67,183	65,378	40,664	46,153	31,042	25,553	7,683	799,439	(203,700)	32,296	(171,404)	628,035
Insurance	-	94,861	-	59,888	13,010	24,509	-	4,860	17,695	-	24,486	-	-	239,309	64,248	-	64,248	303,557
Other client costs	-	25,279	4,315	2,242	46,264	89,194	25,243	125	-	49,138	8,391	-	196	250,387	23,791	2,000	25,791	276,178
Fundraising	-	-	-	-	-	-	-	56,399	-	-	-	-	-	56,399	9,541	863,233	872,774	929,173
Advertising and other media	-	-	1,276	-	1,500	136	-	5,531	-	3,643	31	-	3,167	15,284	325,795	(8,354)	317,441	332,725
Information systems	-	583	178,187	-	36	-	-	6,000	2,149	(75)	-	-	7,778	194,658	37,032	-	37,032	231,690
Depreciation	-	-	-	-	-	-	-	-	21,742	26,575	-	-	-	885	49,202	61,237	409,777	458,979
Supplies and office expenses	-	21,018	6,086	6,622	9,020	3,052	5,499	10,304	3,101	14,671	2,142	1,955	1,419	84,889	25,994	11,047	37,041	121,930
Other expenses	-	10,336	135	2,279	3,552	2,547	2,830	7,373	1,040	295	1,600	-	5,056	37,043	116,052	31,540	147,592	184,635
<b>Total expenses</b>	<b>\$ 12,398,210</b>	<b>\$ 3,090,305</b>	<b>\$ 1,294,712</b>	<b>\$ 1,237,903</b>	<b>\$ 983,766</b>	<b>\$ 960,349</b>	<b>\$ 955,585</b>	<b>\$ 934,885</b>	<b>\$ 646,986</b>	<b>\$ 642,558</b>	<b>\$ 431,426</b>	<b>\$ 342,995</b>	<b>\$ 342,029</b>	<b>\$ 24,261,709</b>	<b>\$ 3,792,612</b>	<b>\$ 1,439,210</b>	<b>\$ 5,231,822</b>	<b>\$ 29,493,531</b>

Year Ended December 31, 2011	Program Services													Support Services			Total	
	Pharmacy	Medical Services	Clinic Operations	Behavioral/Mental Health	Research	Day Treatment	Medical Adherence	Legal	Dental Health	Community Health	Addictions/Substance Abuse	Public Benefits	STD Services	Total Program Services	Management and General	Fundraising		Support Services
Personnel expenses	\$ -	\$ 2,300,763	\$ 617,476	\$ 986,762	\$ 687,036	\$ 720,057	\$ 835,755	\$ 741,723	\$ 424,943	\$ 498,513	\$ 235,322	\$ 332,602	\$ 101,844	\$ 8,482,796	\$ 2,212,600	\$ 429,864	\$ 2,642,464	\$ 11,125,260
Subcontractors/consultants	-	1,000	178,222	12,440	27,505	1,873	415	6,795	74,351	1,500	-	-	3,478	307,579	115,050	5,037	120,087	427,666
Audit/professional services	-	200	-	10,500	-	-	-	87,570	-	60	-	-	72,452	170,982	579,915	218,060	797,975	968,957
Management fees	1,510,451	-	-	-	-	-	-	-	-	-	-	-	-	1,510,451	-	-	-	1,510,451
Medical supplies and lab fees	15,739	201,230	1,486	-	44,386	1,467	1,062	-	52,728	35,190	158	-	106,768	460,214	-	-	-	460,214
Pharmaceuticals	6,782,641	-	-	-	-	-	76,084	-	-	-	-	-	-	6,858,725	-	-	-	6,858,725
Facilities	-	225,074	74,512	84,838	58,745	68,938	-	74,095	42,874	57,586	22,364	-	8,720	717,746	(183,530)	40,538	(142,992)	574,754
Insurance	-	113,744	-	72,580	14,405	28,810	27,223	6,307	14,405	-	20,292	29,452	-	327,218	33,225	-	33,225	360,443
Other client costs	-	23,708	-	331	66,201	89,772	-	520	289	47,171	3,864	-	37	231,893	9,686	2,118	11,804	243,697
Fundraising	-	-	-	-	-	-	-	17,289	-	-	-	-	-	17,289	13,733	511,556	525,289	542,578
Advertising and other media	735	3,625	300	4,214	1,577	-	-	5,296	-	5,161	331	-	3,166	24,405	240,554	4,325	244,879	269,284
Information systems	-	30,150	165,031	-	24,915	-	-	6,000	10,000	2,938	410	-	4,135	243,579	34,634	500	35,134	278,713
Depreciation	-	-	-	-	-	-	-	-	9,571	31,487	-	-	-	41,058	311,656	61,237	372,893	413,951
Supplies and office expenses	-	14,770	5,049	5,399	12,280	3,164	3,708	8,553	3,203	8,017	1,306	1,291	1,942	68,682	19,891	6,386	26,277	94,959
Other expenses	-	6,347	-	3,367	2,645	569	25	5,810	2,917	106	618	-	2,063	24,467	154,900	53,026	207,926	232,393
<b>Total expenses</b>	<b>\$ 8,309,566</b>	<b>\$ 2,920,611</b>	<b>\$ 1,042,076</b>	<b>\$ 1,180,431</b>	<b>\$ 939,695</b>	<b>\$ 914,650</b>	<b>\$ 944,272</b>	<b>\$ 959,958</b>	<b>\$ 635,281</b>	<b>\$ 687,729</b>	<b>\$ 284,665</b>	<b>\$ 363,345</b>	<b>\$ 304,805</b>	<b>\$ 19,487,084</b>	<b>\$ 3,542,314</b>	<b>\$ 1,332,647</b>	<b>\$ 4,874,961</b>	<b>\$ 24,362,045</b>

See accompanying notes to financial statements.

# Whitman-Walker Health

## Statements of Cash Flows

Years Ended December 31,	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,661,265	\$ 2,346,667
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	458,979	413,951
Provision for uncollectible accounts receivable	-	19,292
<b>(Increase) decrease in assets:</b>		
Accounts receivable	(255,240)	(588,021)
Inventory	(224,977)	(376,009)
Prepaid expenses and other assets	(517,276)	9,763
<b>Increase (decrease) in liabilities:</b>		
Accounts payable and accrued expenses	(573,275)	19,251
Amounts due third party vendor for pharmacy operating capital net of amount included in accounts payable	(77,660)	182,472
Refundable advances	15,179	103,181
Deferred revenue	(3,000)	3,000
<b>Net cash provided by operating activities</b>	<b>1,483,995</b>	<b>2,133,547</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(380,996)	(559,431)
<b>Net cash used in investing activities</b>	<b>(380,996)</b>	<b>(559,431)</b>
<b>Cash flows from financing activities</b>		
Repayments on equipment and insurance financing agreements	(66,504)	(108,289)
Borrowings on line of credit	-	5,750,000
Repayments on line of credit	-	(6,850,000)
<b>Net cash used in financing activities</b>	<b>(66,504)</b>	<b>(1,208,289)</b>
Increase in cash and cash equivalents	1,036,495	365,827
Cash and cash equivalents, beginning of year	1,049,482	683,655
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,085,977</b>	<b>\$ 1,049,482</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ -	\$ 76,295

*See accompanying notes to financial statements.*

# Whitman-Walker Health

## Notes to Financial Statements

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### 1. Nature of Activities and Significant Accounting Policies

#### *Nature of activities*

Mission- Whitman-Walker Clinic, Inc. dba Whitman Walker Health (WWH) is a non-profit community-based health care organization serving the Washington, DC metropolitan region. Its mission is to be the highest quality, culturally competent community health center serving greater Washington's diverse urban community, including individuals who face barriers to accessing care, and with a special expertise in lesbian, gay, bisexual and transgender (LGBT) and HIV care.

Services - WWH has been providing comprehensive health services to residents of the DC Metropolitan area since 1978. WWH secured designation as a Federally Qualified Health Center look-alike in early 2007, a designation the health center maintains. To that end, WWH offers a wide range of patient care services including primary and preventive health services; confidential HIV and Sexually Transmitted Disease (STD) testing; mental health services such as individual and group therapy; addiction treatment services and dental services. WWH provides a full service pharmacy for the convenience of its patients. Patients may also access a number of important health related services such as medical adherence case management, day treatment, support groups focused on issues facing the LGBT community, outreach and education, and legal services. Lastly, WWH conducts community-based research to monitor the progression of HIV -related symptoms and the effectiveness of promising new treatments.

A summary of WWH's significant accounting policies follows:

#### *Basis of accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred, and in accordance with accounting principles generally accepted in the United States of America.

#### *Basis of presentation*

The financial statements are prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities topic of ASC 958, Financial Statements of Not-for-Profit Organizations and ASC 954, Financial Statements of Health Care Entities, WWH must provide a statement of financial position, a statement of functional expenses, a statement of activities that includes a performance measure, and a statement of cash flows. WWH must classify its net assets, revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions into one of three classes of net assets—permanently restricted, temporarily restricted, and unrestricted. WWH held no permanently restricted net assets at December 31, 2012 and 2011.

#### *Cash and cash equivalents*

Cash and cash equivalents are defined as currency on hand, demand deposits with banks or financial institutions, and other amounts that have the general characteristics of demand deposits. Cash and cash equivalents are carried at cost, and have an original maturity of three months or less.

# Whitman-Walker Health

## Notes to Financial Statements

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### *Accounts receivable, Third Parties*

Accounts receivable, third parties are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon the age of the receivable balance. The allowance for doubtful collections is estimated based upon a periodic review of accounts receivable aging, pay or classifications, and application of historical third party adjustments.

### *Accounts receivable, Pharmacy*

Accounts receivable, pharmacy are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based on historical collection experience and management's assessment of their collectability.

### *Inventory*

Inventories consist of pharmaceutical products, and are stated at the lower of cost or market using the first-in, first-out method.

### *Property and equipment*

Property and equipment is carried at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets. The useful lives of assets are as follows:

Building and improvements	40 years
Furniture and equipment	5 to 10 years

WWH capitalizes all property and equipment with a cost basis of \$2,500 or more. When properties are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of activities. Repairs and maintenance are charged to expense when incurred.

### *Refundable advances*

WWH accounts for government grant receipts as exchange transactions. A refundable advance for unearned exchange transactions is recorded only when WWH receives funds prior to earning the revenue and not just when an exchange transaction agreement is entered into. Once the funds are expended, revenue from the grant is recognized. The balance in refundable advances at December 31, 2012 and 2011 represents amounts received that will be expended in the next fiscal year in accordance with grant provisions.

### *Board designated and temporarily restricted net assets*

Board designated net assets are those assets that are internally designated by WWH's Board and to which the governing board has the right to decide at any time to expend the principal of such funds. Temporarily restricted net assets are those whose use by WWH has been limited by donors to a specific purpose or time period.

# Whitman-Walker Health

## Notes to Financial Statements

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### *Changes in net assets*

The statement of activities includes the determination of changes in net assets. WWH includes in its changes in net assets: patient service revenue (including pharmacy revenue), contracts and grants (federal and non-federal) as well as contributions as all revenue sources are essential to WWH's operations in order to provide the services described above.

### *Revenue recognition*

Donations, bequests, and grants are recorded in the period they are received at the expected realizable value. Unconditional promises to give are recognized as revenues and assets in the period the promise is received. There were no unconditional promises received in 2012 or 2011.

Contributions received are recorded as unrestricted, temporarily restricted revenue or permanently restricted revenue (WWH has no permanently restricted revenue) depending on the existence and/or nature of any donor stipulations. Donor restricted contributions are reported as an increase in temporarily restricted net assets, depending on the nature of the stipulation. 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 accompanying statements of activities as net assets released from restrictions.

### *Net patient service revenue (Medicaid and third party revenue)*

Net patient service revenue (Medicaid and third party revenue) is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Third-party contractual revenue adjustments are accrued on an estimated basis in the period the related services are rendered. Such amounts are subject to audit by the governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination.

### *Charity care*

WWH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because WWH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. WWH maintains records to identify and monitor the level of charity care it provides. The records include the estimated amount of cost to provide such services under its charity care policy. The estimated cost to provide charity care services were \$216,215 and \$213,375 in 2012 and 2011, respectively.

### *Donated services and in-kind contributions*

Donated services and other non-cash donations are recorded as contributions at their estimated fair values at the date of the donation. Any subsequently unrealized gains or losses are included in the accompanying statements of activities. Donated professional services are reflected in the accompanying statements of activities at their fair value.

There were 1,016 active volunteers who have contributed significant amounts of their time to the activities of WWH without compensation. The financial statements do not reflect the value of those contributed services because the recognition criteria were not met.

# Whitman-Walker Health

## Notes to Financial Statements

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### *Functional allocation of expenses*

The costs of providing program services, management and general and fundraising activities have been summarized on a functional basis in the accompanying statements of activities. WWH allocates expenses to various activities based on the percentage ratio of time spent by employees on specific activities. Accordingly, certain costs have been allocated between program services, management and general and fundraising expenses as shown in the accompanying statements of functional expenses.

Program services consist of clinic operations, public benefits, dental health, medical services, medical adherence, STD services, community health, behavioral/mental health, addictions/substance abuse, day treatment, research, legal and pharmacy services. These activities result in goods and services being distributed to WWH patients and beneficiaries that fulfill the purposes and mission for which WWH exists.

Support services include fundraising and management and general expenses. Fundraising activities include publicizing and conducting fundraising campaigns, maintaining donor mailing lists, preparing and distributing fundraising materials and conducting other activities involved with soliciting contributions. Management and general activities include oversight, business management, general record keeping, budgeting, finance and related administrative activities, and all management and administration except for direct conduct of program services and fundraising activities.

WWH accounts for joint costs incurred for informational materials and activities that are included in fund raising appeals. In determining costs to be allocated. For the years ended December 31, 2012 and 2011, WWH incurred joint costs of \$32,951 and \$33,781, respectively. Of those costs, \$5,360 and \$7,643 were allocated to fundraising expense, \$17,743 and \$18,472 were allocated to management and general expenses, \$3,438 and \$3,434 were allocated to medical services, \$3,739 and \$2,284 were allocated to research programs services and \$2,670 and \$2,038 were allocated to legal services in 2012 and 2011, respectively.

### *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 as of 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.

### *Concentration of credit and market risk*

Financial instruments which potentially subject WWH to concentrations of credit risk consist principally of cash and cash equivalents held at creditworthy financial institutions. Credit risk with respect to accounts receivable is limited because WWH deals with various customers over a wide geographic area. As of December 31, 2012, WWH's credit risks were only related to cash and cash equivalents (see Note 3).

# Whitman-Walker Health

## Notes to Financial Statements

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### *Recent accounting pronouncements*

Charity Care - WWH adopted Accounting Standards Update 2010-23, *Measuring Charity Care for Disclosure*, which requires that direct and indirect costs be used as the measurement for charity care disclosure purposes. The amended guidance was effective for fiscal years beginning after December 15, 2010.

Bad Debt Expense - In July 2011, the Financial Accounting Standards Board (FASB) released Accounting Standards Update 2011-07 (ASU 2011-07), *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires certain healthcare entities to change the presentation of their statement of activities by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, the amendments expand the disclosure requirement for those health care entities regarding their policies for recognizing revenue and assessing bad debts. The standard also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years beginning after December 15, 2012 for nonpublic entities. WWH has evaluated the provisions of ASU 2011-07 and determined that it does not have a material impact on the financial statements.

### *Reclassifications*

Certain amounts in the fiscal year 2011 financial statements have been reclassified to conform to the fiscal year 2012 financial statement presentation.

## 2. Income Taxes

WWH is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and from the District of Columbia franchise, sales and use, and property taxes. WWH is qualified, commencing July 30, 2003, as a public charity under Sections 509(a)(1) and 170(b)(1)(a)(vi) of the Code. WWH is not subject to federal or state income taxes.

WWH determines whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, WWH may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated WWH's tax positions and concluded that WWH has taken no uncertain tax positions nor are there any related penalties and interest that require adjustment to the accompanying financial statements to comply with the provisions of this guidance.

Generally, WWH is no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for years before 2009.

# Whitman-Walker Health

## Notes to Financial Statements

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### 3. Uninsured Balances

At times, WWH's cash and cash equivalents balances may exceed federally insured limits. Due to a temporary federal program in effect from December 31, 2010 through December 31, 2012, non-interest bearing cash balances of WWH were fully insured. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and WWH's non-interest bearing cash balances may again exceed federally insured limits. As of December 31, 2012, non-interest bearing balances approximated \$448,000.

Interest-bearing amounts on deposits in excess of federally insured limits as of December 31, 2012, approximated \$1,498,000.

### 4. Accounts Receivable - Related Party

Under an agreement with the Hearth Foundation, Inc. (Hearth Foundation, or The Foundation), a related party, which concluded on June 30, 2008, WWH served as the Foundation's fiscal and managing agent and received a fee equal to 4.76% of gross potential rental amounts. The Foundation owes WWH \$188,887 at December 31, 2012 and 2011. Provision for uncollectible accounts receivable is based on management's evaluation of the ultimate collectability of the amount due and the expected timing of repayment. The allowance for doubtful accounts was \$121,862 as of December 31, 2012 and 2011.

### 5. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Land	\$ 1,262,532	\$ 1,262,532
Building and leasehold improvements	7,635,184	7,507,457
Furniture, equipment, and software	3,648,993	3,429,316
Transportation equipment	289,407	247,998
	12,836,116	12,447,303
Less: accumulated depreciation and amortization	(6,149,101)	(5,682,305)
Net property and equipment	\$ 6,687,015	\$ 6,764,998

Depreciation expense was \$458,979 and \$413,951 for the years ended December 31, 2012 and 2011, respectively.

### 6. Line of Credit

WWH has a \$1,500,000 bank line of credit with a first priority lien on real property known as the Max Robinson Center, which is renewable on June 30, 2013. The interest rate is at prime (3.25% at December 31, 2012) plus 1% (but never less than 5.75%). Total interest expense for 2012 and 2011 was \$0 and \$45,598, respectively. There was no balance outstanding on this line of credit as of December 31, 2012 and 2011.

# Whitman-Walker Health

## Notes to Financial Statements

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### 7. Retirement Plan

WWH sponsors a Section 403(b) defined contribution retirement plan for all employees working more than 20 hours per week. Eligible employees may enroll in the tax-deferred annuity portion of the plan on the first day of employment. For all eligible full-time employees, WWH contributes up to 3% of their annual compensation after one year of employment and up to 8% of annual compensation after six years of employment. WWH contributions vest on a three-year cliff schedule. Total retirement plan expense was \$239,129 and \$195,649 for the years ended December 31, 2012 and 2011, respectively.

### 8. Commitments

#### *Pharmacy Operations*

In February of 2009, WWH entered into a five-year agreement with a third party to manage and operate WWH's in-house pharmacy. On January 7, 2011, WWH signed an extension of the pharmacy management agreement. The extended agreement runs through February 2016 and includes an additional capital investment of \$190,000 by the third party. The capital investment is required to be repaid by WWH at a rate of \$5,247 per month over the extended term of the contract. Although the third party manages and operates all aspects of the pharmacy, the inventory of outpatient drugs and all cash and receivables related to drug sales remain assets of WWH. In exchange, WWH is obligated to compensate the third party at the rate of \$5,000 per month for management of the pharmacy plus an additional 5% of gross pharmacy revenues as an administrative overhead fee.

The third party also agreed to finance the initial capital investment required to operate the pharmacy, including fixtures, computer hardware and operating capital. This initial investment is required to be repaid by WWH at the rate of \$3,200 per month over the five-year contract term.

As of December 31, 2012 and 2011, the total amount owed to the third party pursuant to these agreements was \$324,927 and \$402,587, respectively.

#### *Lease-Building*

In November 2012, WWH entered into an operating lease agreement for a building currently being constructed at 1525 14<sup>th</sup> Street, NW for patient services and the retail pharmacy. The lease was subject to a \$500,000 security deposit and \$2,500,000 letter of credit. The term of this lease shall begin on delivery of the premises, which shall be the date the landlord's architect of record certifies the base building is "Substantially Complete" and will terminate one hundred and twenty one and one-half months (121.5 months or approximately 10 years and 2 months). The expected building completion date per terms of the agreement shall be no later than June 17, 2014. In the event the building is not substantially complete on or before June 17, 2014, which is eighteen (18) months after such commencement date of the construction of the Building, then WWH shall have the option to terminate the lease by written notice to landlord.

The base monthly rent shall be abated by fifty percent (50%) for the first three (3) months only of the first Lease Year of the initial term of the Lease [i.e. months 1, 2 and 3 will be 50% of \$143,578.58 or \$71,789.29 per month]. This abatement is for the base monthly rent only, and does not include real estate taxes or operating expenses.

# Whitman-Walker Health

## Notes to Financial Statements

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WWH has sole option to extend the lease for up to two (2) consecutive additional periods of five (5) years. During the extension term, if exercised, base annual rent shall be computed as an amount equal to ninety-five percent (95%) of the then-prevailing fair market rent.

The lease contains escalation amounts of 3% per year.

The future minimum rental payments will be determined upon commencement of the lease.

### *Leases-Equipment*

WWH leases office facilities and equipment under various operating leases, which expire through 2017. The operating lease expense was \$57,289 and \$103,880 for the years ended December 31, 2012 and 2011, respectively.

WWH's future minimum rental payments by year and in the aggregate, under its operating leases are as follows:

Years ending December 31:	Totals
2013	\$ 56,672
2014	35,627
2015	19,923
2016	5,820
2017	1,455
	<hr/>
	\$ 119,497

## 9. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on WWH, if any, are not presently determinable.

There is a pending claim for medical malpractice against WWH. The outcome of this claim is not determinable, however, the financial impact is not expected to be material to the financial statements since the claim is covered by insurance.

Amounts received and expended by WWH under various federal and state grant awards are subject to audit by government agencies. Management believes that adjustments, if any, which might result from such audits would not have a material impact on the financial position of WWH.

# Whitman-Walker Health

## Notes to Financial Statements

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### 10. Health Insurance

WWH participates in a self-insured medical plan for its employees. The maximum annual liability to WWH per plan participant is \$80,000 based on stop loss insurance. The amount funded each year by WWH changes annually based on an actual medical claims processed by the third party plan administrator. The total liability for all medical claims, both processed and unprocessed, of \$132,656 and \$82,523 is reflected as an accrued expense in the statements of financial position at December 31, 2012 and 2011, respectively.

### 11. Net Assets - Board Restricted

The Board of Directors of WWH established the Endowment Advisory Committee (Committee) to develop board designated net asset fund. The Committee established a policy whereby no portion of the financial or tangible assets of the fund shall be used to support the regular operations of WWH, except in times of financial emergency, and then only upon a motion duly approved on a polled vote by two-thirds of WWH's entire Board of Directors.

The Board restricted assets had the following assets at December 31:

	2012	2011
Land and buildings	\$ 3,132,329	\$ 3,139,012
Less: accumulated depreciation and amortization	(750,881)	(686,605)
Total assets	\$ 2,381,448	\$ 2,452,407

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor restricted funds, which are only available for program activities or general support designated for future years. As such, temporarily restricted net assets were released from restrictions during the years ended December 31, 2012 and 2011, due to the time restriction ending or the purpose restriction being accomplished. Temporarily restricted net assets were \$3,589 and \$10,000 for the years ended December 31, 2012 and 2011, respectively.

### 13. Related Parties

The Hearth Foundation, a 501(c)(3) not-for-profit organization, is a multi-unit apartment project for those living with disabilities located in Washington, DC. The Foundation is operated under Section 811 of the National Housing Act and regulated by the US Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Foundation's major program is its Section 811 direct loan program. The Foundation maintains a separate Board of Directors and WWH does not exercise control of the Foundation.

### 14. Collective Bargaining Agreement

WWH is a party to a collective bargaining agreement with its union employees, which expires on December 31, 2015. The employees are represented by the Service Employees International Union

# Whitman-Walker Health

## Notes to Financial Statements

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(SEIU), District 1199E-DC, AFL-CIO-CLC. As of December 31, 2012, 60% of WWH's labor force was covered under the collective bargaining agreement. The union contract covers the areas of job security, subcontracting, wages and benefits, grievance and arbitration procedures, discipline and discharge, seniority, union representation, strikes, management rights, and other operational procedures.

### 15. Subsequent Events

On June 4, 2013, WWH announced a collaboration with the Mautner Project to provide health and wellness education and outreach to Washington's lesbian and bisexual community. This collaboration will bring the Mautner Project program and staff under WWH's operations.

Subsequent events were evaluated through June 26, 2013, which is the date the financial statements were available to be issued. There were no events or transactions which would require adjustments or disclosure to these financial statements.

Schedule of Expenditures  
of Federal Awards

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Whitman-Walker Health

Schedule of Expenditures of Federal Awards

Federal Grantor/Program	Pass-Through Grantor	CFDA No.	Grant Number	2012 Expenditures
<b>Health Resources and Services Administration, Department of Health and Human Services (DHHS):</b>				
HIV Emergency Relief Project Grants (Ryan White Part A and MAI)	Department of Health, D.C.	93.914	11U020	\$ 383,006
HIV Emergency Relief Project Grants (Ryan White Part A and MAI)	Department of Health, D.C.	93.914	12V020	1,961,952
		<b>93.914</b>		<b>2,344,958</b>
<b>Health Resources and Services Administration, Department of Health and Human Services (DHHS):</b>				
HIV Care Grant Program: Treatment Adherence (Ryan White Part B)	Department of Health, DC	93.917	11U416	117,786
HIV Care Grant Program: Treatment Adherence (Ryan White Part B)	Department of Health, DC	93.917	12V419	327,678
		<b>93.917</b>		<b>445,464</b>
<b>Health Resources and Services Administration, Department of Health and Human Services (DHHS):</b>				
Grants to provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C)		93.918	H76HA00074	162,608
Grants to provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C)		93.918	H76HA00074	528,951
Grants to provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C - Planning)		93.918	P06HA23176	25,833
		<b>93.918</b>		<b>717,392</b>
<b>Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):</b>				
Prevention for Positive/Healthy Relationships	Department of Health, DC	93.940	12V219	122,427
		<b>93.940</b>		<b>122,427</b>
<b>National Institutes of Health, Department of Health and Human Services (DHHS):</b>				
Drug Abuse and Addiction Research Programs	University of Miami - STI - NIDA	93.279	IRC2DA028973-1	20,099
		<b>93.279</b>		<b>20,099</b>
Trans-NIH Recovery Act Research Support	George Washington University - CPCRA	93.701	3U01 A1069503-03S2	66,407
	University of Miami	93.701	UM1A069503	110,582
		<b>93.701</b>		<b>176,989</b>
Allergy, Immunology and Transplantation Research	Johns Hopkins University	93.855	U01A1035042	141,197
Allergy, Immunology and Transplantation Research	Johns Hopkins University	93.855	5U01A1035042-20	230,131
Clinical Trials Network Mid Atlantic Collaborative Group	John Hopkins Universtiy	93.855	5U10DA013034-12	2,175
		<b>93.855</b>		<b>373,503</b>
<b>Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):</b>				
Prevention Health Services - Sexually transmitted Diseases Control Grants	Department of Health, DC	93.977	12V701	51,644
		<b>93.977</b>		<b>51,644</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 4,252,476</b>

See accompanying notes to Schedule of Expenditures of Federal Awards.

# Whitman-Walker Health

## Notes to Schedule of Expenditures of Federal Awards

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of WWH 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reimbursement of indirect costs reflected in the accompanying financial statements as federal grants revenue is subject to final approval by federal grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment will not be material to WWH's financial position or change in net assets.

All of WWH's federal awards were in the form of cash assistance for the year ended December 31, 2012.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting.

Reports Required by  
*Government Auditing Standards*  
and OMB Circular A-133

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

To the Board of Directors  
Whitman-Walker Clinic, Inc.  
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Whitman-Walker Clinic, Inc. dba Whitman Walker Health (WWH) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, statement of 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 26, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WWH'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 WWH's internal control. Accordingly, we do not express an opinion on the effectiveness of WWH'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of WWH's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiency in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency identified as item 2012-01.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether WWH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

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The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Management's Response to Finding**

Management's response to the finding identified in our audit are described in section II of the accompanying schedule of findings and questioned costs in the views of responsible officials and planned corrective actions section. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WWH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WWH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Bethesda, Maryland  
June 26, 2013



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Bethesda, MD 20814-4827

## Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance

To the Board of Directors  
Whitman-Walker Clinic, Inc.  
Washington, D.C.

### Report on Compliance for Each Major Federal Program

We have audited Whitman-Walker Clinic, Inc. dba Whitman Walker Health (WWH) 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 WWH's major federal programs for the year ended December 31, 2012. WWH'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 each of its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of WWH'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 WWH'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 WWH's compliance.

### Opinion on Each Major Federal Program

In our opinion, WWH 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.



### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-02. Our opinion on each major federal program is not modified with respect to these matters.

WWH's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. WWH's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of WWH 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 WWH's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WWH's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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.

BDO USA, LLP

Bethesda, Maryland  
June 26, 2013

# Whitman-Walker Health

## Schedule of Findings and Questioned Costs

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### Section I - Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified?   X   Yes    \_\_\_\_\_ None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

#### *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes      X   None noted

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

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?   X   Yes    \_\_\_\_\_ No

Identification of major programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
93.914	HIV Emergency Relief Project Grants (Ryan White Part A and MAI)
93.701	Trans-NIH Recovery Act Research Support

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

Auditee qualified as low risk auditee?   X   Yes    \_\_\_\_\_ No

# Whitman-Walker Health

## Schedule of Findings and Questioned Costs

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### Section II - Financial Statement Finding

#### 2012-01 - Pharmacy Inventory | Cost of Sales Reconciliation

Criteria or specific requirement - Generally accepted accounting principles, require purchases to be recorded to a purchase account and not directly to cost of sales.

Condition - We noted WWH was not recording cost of sales in accordance with generally accepted accounting principles. WWH's third party pharmacy service provider was reporting pharmacy operations to management in a manner that was not consistent with generally accepted accounting principles. As a result, on a monthly basis the amounts reported in the inventory and cost of goods sold accounts could not be relied upon. The third party's policy was to reconcile these accounts based on actual sales on a period basis throughout the year and adjust for discrepancies based on quarterly inventory counts. This caused an adjustment to cost of goods sold by \$32,783 and left a remaining immaterial unreconciled, unexplained difference between the cumulative monthly sales reports and the general ledger.

Context - The finding relates to the amounts recorded in inventory and cost of goods sold throughout the year.

Effect - This has led to an adjustment to reflect cost of goods sold at the appropriate amount.

Cause - WWH relied upon a third party to manage the operations of WWH's pharmacy. The use of the retail method for recording inventory purchases and adjusting for 340B and replenishment sales after the sales transactions occurred, coupled with the third party's method of accounting for these transactions led to this discrepancy.

Recommendation - In order to more accurately account for inventory and the cost of sales, we recommend:

- All current-year purchases of goods should be charged to the purchases account and not directly to cost of sales.
- Implement a more consistent method (Accounting Standards Codification (ASC) 330-10-30 (15)) that tracks all pertinent information so that returns, 340B pricing, sales, and purchases would each be accounted for and recorded consistently.
- At the end of each month, record the cost of goods sold from the monthly sales report provided by the third party.
- Investigate quarterly adjustments to inventory and cost of goods sold as a result of physical inventory counts.
- Consider the business implications of purchasing inventory at retail and requesting reimbursement.

#### Views of responsible officials and planned corrective actions

WWH agrees with the recommendation. WWH has attempted to work with third party pharmacy management company to improve reporting with respect to cost of goods sold. Due in part to the complexities of the DC Medicaid replenishment model and inventory values related to 340B/retail pricing, the third party management company has had limited success in its ability to consistently and accurately report results of operations. This in turn has made it difficult to manage operations

# Whitman-Walker Health

## Schedule of Findings and Questioned Costs

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as it relates to pharmacy activity. WWH is optimistic in the prospect that implementing the recommendations will yield timely and accurate results of operations.

### Section III - Federal Award Findings and Questioned Costs

<u>No.</u>	<u>Program</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
2012-02	HIV Emergency Relief Project Grants (Ryan White Part A and MAI); CFDA No. 93.914	Allowable Costs/Cost Principles	\$3,066

Criteria - OMB Circular A-122, Attachment B, Section M(1)(c) states that the reports (timesheets in this instance) must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

Condition We noted two of the 25 expenditures sampled did not have necessary timesheet approvals in accordance with OMB Circular A-122 in addition to the requirements set forth in the related grant agreement and in accordance with WWH's existing policies.

Questioned Costs - \$3,066

Context - In 2 of 25 expenditures sampled, the key controls over WWH's compliance with allowable costs for salary expense, that is timesheet approvals, did not function as designed.

Effect - We were unable to confirm the allowability of the related salaries charged for the time periods for which there was no supervisor approval.

Cause - Policies and procedures were not functioning as designed to ensure costs were allowable by requiring appropriate level of review and approval was completed prior to charging costs to a federal program. The cause was likely the result that the individual's supervisor was not available to approve the timesheet.

Recommendation - We recommend that WWH ensure its policies and procedures are followed on a consistent basis. In addition, WWH should establish procedures to ensure policy compliance.

View of Responsible Official and Corrective Action - WWH agrees with the recommendation. It is the policy of WWH for all time and effort reporting to be approved by the manager/director responsible for each programmatic or administrative area. To ensure adherence to all related policies, WWH will reorganize in 2013. A payroll professional will be hired and the payroll function will be under the umbrella of the Chief Financial Officer and report to a director level position within Finance. In addition, there are formal plans to upgrade to a more sophisticated timekeeping software package that will aid in management of this function.