



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

Schedule of Expenditures of Federal
Awards, and Independent Auditor's Reports
Required by *Government Auditing Standards*
and OMB Circular A-133
Years Ended December 31, 2014 and 2013

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

Schedule of Expenditures of Federal
Awards, and Independent Auditor's Reports
Required by *Government Auditing Standards* and
OMB Circular A-133
Years Ended December 31, 2014 and 2013

Whitman-Walker Health

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Schedule of Expenditures
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Whitman-Walker Health

Schedule of Expenditures of Federal Awards

Federal Grantor/Program	Pass-Through Grantor	CFDA No.	Grant Number	2014 Expenditures
Health Resources and Services Administration, Department of Health and Human Services (DHHS):				
HIV Core Medical Services and/or HIV Support Services (Ryan White Part A and MAI)	Department of Health, D.C.	93.914	14X021	\$ 619,108
HIV Core Medical Services and/or HIV Support Services (Ryan White Part A and MAI)	Department of Health, D.C.	93.914	14X021-B	2,584,957
		93.914		3,204,065
Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):				
Comprehensive HIV Prevention Strategies	Department of Health, DC	93.940	14X219	266,594
Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):				
HIV Prevention and Intervention Services	Department of Health, DC	93.523	15Y253	9,190
HIV Prevention and Intervention Services	Department of Health, DC	93.523	14X188	20,000
		93.523		29,190
Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):				
Preventive Health Block Grant, Part A Title XIX	Department of Health, DC	93.991	CHA.PHBG.WWC.072014	38,321
Cooperative Agreement to Support and Establishment of the Affordable Care Act's Health Insurance Exchanges				
DC Health Link Assister Program	Department of Health, DC	93.525	DCHBX-2013-RFA-01	277,103
Research and Development Cluster:				
National Institutes of Health, Department of Health and Human Services (DHHS):				
Trans-NIH Recovery Act Research Support	George Washington University - CPCRA	93.855	14-M17	94,129
Trans-NIH Recovery Act Research Support	George Washington University - CPCRA	93.855	UM1A1069503-09	6,260
Allergy, Immunology and Transplantation Research	Johns Hopkins University	93.855	2000717841	94,732
Allergy, Immunology and Transplantation Research	Johns Hopkins University	93.855	2002210946	261,244
Allergy, Immunology and Transplantation Research	Johns Hopkins University	93.855	2002064188	6,752
Division of AIDS of the Nation Institute for Allergy and Infectious Diseases	Public Health Foundation Enterprises	93.855	SUM1A1069496-07	444,279
Clinical Trials Network Mid Atlantic Collaborative Group	John Hopkins University	93.855	5U10DA03034-15	3,549
Allergy and Infectious Diseases	Johns Hopkins University	93.855	2002201547	221,853
Allergy and Infectious Diseases	John Hopkins University	93.855	5UM1AI069465-09	8,155
Allergy and Infectious Diseases	Johns Hopkins University	93.855	2UM1AI068636-08	8,268
Allergy and Infectious Diseases	John Hopkins University	93.855	UM1AI068636	2,583
Total National Institutes of Health - Research and Development Cluster		93.855		1,151,804
Department of Health and Human Services				
Health Care Innovation Awards	George Washington University	93.610	CMS-1C1-001	6,101
Centers for Disease Control and Prevention, Department of Health and Human Services (DHHS):				
Prevention Health Services - Sexually transmitted Diseases Control Grants	Department of Health, DC	93.977	14X701	58,655
AIDS United Access to Care Initiative:				
Social Innovation Fund Grant	Department of Health, DC	94.019	WWH PosPath YR3	3,198
Social Innovation Fund Grant	Department of Health, DC	94.019	WWH PosPath YR4	14,251
		94.019		17,449
Health Resources and Services Administration, Department of Health and Human Services (DHHS):				
Ryan White Part C Outpatient EIS Program		93.918	H76HA00074	690,158
Health Resources and Services Administration, Department of Health and Human Services (DHHS):				
Health Center Cluster		93.224	H80CS26632	700,522
Corporation for National and Community Service				
Employment Opportunity Legal Corps		94.006	2014-2015 Term	7,058
Total Expenditures of Federal Awards				\$ 6,447,020

See accompanying notes to Schedule of Expenditures of Federal Awards.

Whitman-Walker Health

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

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

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.

WWH had no federally funded insurance programs or loan guarantees during the year ended December 31, 2014.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Reconciliation of Schedule of Expenditures of Federal Awards to the Statement of Activities

For the year ended December 31, 2014, WWH recognized \$6,447,020 of revenue from federal/pass-through grants which is included in contracts and grants revenue in the accompanying statement of activities. WWH recognizes federal revenue based on allowable direct and fringe benefit costs incurred.

4. Event Subsequent to the Date of the Independent Auditor's Report

Subsequent to the issuance of our report, we became aware that two grants had been incorrectly identified as Federal pass-through awards by the awarding agency, and therefore, incorrectly included in the schedule. In addition, a portion of grant #14X188 received in the second modification of the grant award should have been included in CFDA #93.523 in the amount of \$20,000. The net effect was an overstatement of federal expenditures on the schedule by \$149,653. The schedule has been modified to correctly reflect total expenditures of federal awards and CFDA program groupings.

Independent Auditor's 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, 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 August 10, 2015.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies identified as items 2014-001, 2014-002 and 2014-003.

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*.

WWH's Responses to Findings

WWH's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. WWH's responses were 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

August 10, 2015



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Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014. 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, 2014.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-004. Our opinion on each major federal program is not modified with respect to this matter.

WWH's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. WWH's responses were 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.



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of **Whitman-Walker Clinic, Inc. dba Whitman-Walker Health** as of and for the year ended December 31, 2014, and have issued our report thereon dated August 10, 2015, except as discussed in Note 4 to the Schedule of Expenditures of Federal Awards, as to which the date is March 8, 2016 which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

August 10, 2015, except as discussed in Note 4
to the Schedule of Expenditures of Federal Awards,
as to which the date is March 8, 2016

Whitman-Walker Health

Schedule of Findings and Questioned Costs

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? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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 OMB Circular A-133, Section .510(a)?

Yes No

Identification of major programs:

CFDA/Contract Number

Name of Federal Program or Cluster

93.914

HIV Core Medical Services and/or HIV Support Services (Ryan White Part A and MAI)

93.224

Health Center Cluster

Dollar threshold used to distinguish between

Type A and Type B programs:

\$300,000

Auditee qualified as low risk auditee?

Yes No

Whitman-Walker Health

Schedule of Findings and Questioned Costs

Section II - Financial Statement Finding

2014-001 - Non-Routine Transactions

Criteria or specific requirement - There were several non-routine transactions that were not recorded properly in the general ledger and required adjustment during the course of the audit.

Condition - We noted various transactions not recorded in accordance with generally accepted accounting principles. These transactions included:

- Rent expense recognized under the operating lease was not recognized in accordance with generally accepted accounting principles (GAAP).
- WWH also did not record tenant improvement incentives contained in the lease in accordance with GAAP.
- Loan proceeds for the interest reserve account were not reflected as "assets limited to use" (non-current assets) in the Statement of Financial Position.

Context - The finding relates to the amounts omitted or improperly recorded for financial reporting purposes.

Effect - The finding led to various material audit entries to true up financial reporting for property and equipment, deferred rent, rent expense and restricted cash.

Cause - The financial statement findings are largely a function of a result of changes in key personnel and lack of resources within the Finance Department.

Recommendation - Effective internal control over financial reporting ensures timely and consistent involvement of key personnel in evaluating the impact of significant, complex agreements and/or transactions. We recommend management evaluate its approach to recording non-routine transactions and ensure coordination with all operating departments to ensure transactions with financial implications are properly recorded in the financial system.

We believe that consideration of this process of accounting for and classification of significant and non-routine transactions will avoid significant correcting adjustment(s) during the audit process.

Views of responsible officials and planned corrective actions - Management concurs with the recommendation of the audit firm and will ensure that appropriate research and review of the accounting treatment for non-routine transactions is conducted and applied as required. Additional staffing needs have been addressed in the annual budgeting process to increase capacity.

2014-002 - Patient Revenue | Receivables and Related Recordkeeping

Criteria or specific requirement - Medicaid and third party revenue and receivable balances (also referred to as patient revenue or patient receivable) contained various inconsistencies in processing data and recording information that led to inaccuracies in financial reporting.

Condition - We noted the following inconsistencies in processing data and recording information.

Whitman-Walker Health

Schedule of Findings and Questioned Costs

- WWH is not recording patient service revenue in accordance with ASC 954-310-25 (2), Health Care Entities Revenue Recognition, "Revenue usually is recorded when coverage is provided to an enrollee or the service is provided to a patient or resident."
- WWH is reconciling gross receivables based on a report that pulls patient information by "claim date" as opposed to "service date" which would represent the date service was rendered and revenue can be recognized.
- We noted various instances where the claim date was significantly different from the service date which was reflective of untimely or improper billings. These issues could lead to a potential misstatement of the patient accounts receivable balance as well as an over (or under) statement of related patient revenues.
- There were inconsistencies between WWH's patient reporting system (eCW) and data extraction software (BRIDGE-IT), which led to inconsistencies in the total number of encounters serviced for the 2014 fiscal period.
- WWH does not maintain approved copies of rates and charge codes despite multiple changes to the fee schedule during 2014.
- We noted two instances during patient file testing within the patient revenue cycle in which the provider did not properly update the procedural codes for a patient visit. Thus, the patient claim was marked as a "non-billable" visit and not billed to the appropriate third party service provider.
- During analysis of the subsequent receipt cash detail while performing testing of patient accounts receivables, we noted various instances in which checks received prior to December 31, 2014, were not posted to patient accounts. There were check dates received as early as August 7, 2014, not posted to patient account until May 6, 2015.

Context - The finding relates to the inconsistency of patient data and the accuracy of the amounts recorded for patient revenue and patient accounts receivable in the general ledger that were corrected during the audit.

Effect - The finding led to inconsistent data analysis and financial reporting true ups related to patient accounts receivable and patient revenue.

Cause - WWH's patient reporting system (eCW) appears to lack certain financial reporting features that would allow WWH to properly record patient revenue and patient accounts receivable on an effective "gross to net" basis in a timely manner. In addition, the eCW system appears to not be able to produce healthcare specific reports that would aid WWH in financial reporting as well as data analysis.

Recommendation - In order to provide an accurate accounting of patient service revenue, we recommend revenue be recognized once patient service has been provided at the gross amount of billable services. The provision for contractual adjustments and discounts should then be recognized on an accrual basis and deducted from gross service revenue to determine net service revenue. Management should implement a policy to determine the allowance for contractual adjustments, and record an allowance for accounts considered uncollectible. In addition, management should also consider utilizing additional system requirements that would enable WWH to better track adjudication of patient accounts.

Whitman-Walker Health

Schedule of Findings and Questioned Costs

We also recommend that WWH improve billing practices related to capturing patient visit data, attesting to patient procedures and charges and properly billing patient service visits.

Views of responsible officials and planned corrective actions - Management concurs with the recommendation and will take steps to access the current capabilities of the patient reporting system and evaluate the use of additional technology to address the issues related to the "gross to net" financial reporting requirement. In addition, additional staff will be hired to provide capacity to perform appropriate oversight with respect to vendor management regarding timely billing and recording of payments and contractual adjustments, as well as an appropriate review of code documentation and the classification of billable status.

2014-003 - Wire Transfers

Criteria or specific requirement - Subsequent to the end of the fiscal year but prior to issuance of the audit report, WWH management reported they improperly wired funds to an unauthorized vendor.

Condition - A finance senior staff member executed a wire transfer of \$141,000 from an unauthorized vendor after receiving a phishing email. The finance senior staff member did not follow internal controls as designed related to wire authorization as all wire transfers must be authorized on a Wire Authorization Form by an authorized check signer (the authorized check signers are as follows: Chief Financial Officer, Chief Medical Officer and Chief Executive Officer).

Context - The finding relates to the control environment for approval of invoices for financial reporting purposes. No federal funds were involved in the transaction and the funds were returned to WWH's operating account the following month.

Effect - The finding initially allowed \$141,000 to be transmitted to an unauthorized vendor. The funds were later returned back to WWH's operating account the following month.

Cause - The financial statement finding was a control breakdown by the finance senior staff member in not following internal control protocols already in place in the WWH's accounting policies and procedures.

Recommendation - Management should ensure internal controls are followed as written in the organization's policy manual, proper controls are in place to prevent such fraud from occurring within the organization. Therefore, WWH should strictly adhere to its internal control policies and procedures. Further, management should perform periodic training to individuals involved in the financial reporting function which would ensure internal control policies and procedures are adequately followed.

Views of responsible officials and planned corrective actions - Management addressed the adherence failure for an existing policy through a staffing change, and will further ensure that established procedures are followed in the future. In addition, management will work through the existing banking relationship to explore additional security procedures and options that may be available for electronic transactions.

Whitman-Walker Health

Schedule of Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

2014-004- Reporting

Information on Federal Programs(s)- HIV Emergency Relief Project Grants (Ryan White Part A and MAI)
CFDA No. 93.914
Grant Number: 14X021

Health Center Cluster
CFDA No. 93.224
Grant Number: H80CS26632

Criteria or Specific Requirement - Per OMB Circular A-110, 2 CFR 215.51, and WWH's grant agreements, the recipient is required to submit performance/programmatic reports to the federal awarding agency. Extensions of reporting due dates may be approved by the federal awarding agency upon request of the recipient.

Condition - During our testing of programmatic and financial reports, three of the eleven reports were submitted 1 to 184 days after their respective due dates.

Questioned Costs - Not applicable as there were no questioned costs related to noncompliance.

Context - This finding is a condition per review of WWH's compliance with specified reporting requirements for both major programs selected.

Effect - WWH did not comply with the reporting requirements of the major program(s). Failure to submit the reports timely could result in suspension or termination of funding due to non-compliance with the requirements of the program.

Cause - There was a reporting issue with the DC database used to report program income. In addition, there were certain challenges with WWH's quality of information within the eCW system which delayed timely submission of the Program Income reports for submission.

Recommendation - We recommend WWH enforce its policies and procedures to ensure required reports are reviewed, adequately supported and submitted on a timely basis. In addition, we recommend WWH notify and request an extension in advance from the funding agency, as opposed to missing a reporting deadline.

View of Responsible Official and Corrective Action - Management recognized and addressed the issue regarding program income data required for programmatic reporting in 2014 and made retroactive corrections to provide the data prior to year end. WWHI is currently reporting program income as required in a timely manner.

Whitman-Walker Health

Summary Schedule of Prior Year Audit Findings

Status of Prior Year Audit Findings of Non Compliance

There were no findings and questioned costs for Federal awards (as defined in section .510(a) of the Circular) that are required to be reported.



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

Financial Statements
Years Ended December 31, 2014 and 2013

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

Financial Statements
Years Ended December 31, 2014 and 2013

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.

Report on the Financial Statements

We have audited the accompanying financial statements of **Whitman-Walker Clinic, Inc. dba Whitman-Walker Health (WWH)**, 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 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.

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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, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2015 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 the WWH's internal control over financial reporting and compliance.

BDO USA, LLP

August 10, 2015

Financial Statements

Whitman-Walker Health

Statements of Financial Position

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 1,978,686	\$ 1,761,334
Accounts receivable:		
Grants and contracts	898,877	1,106,970
Medicaid and other third parties, net of allowance for uncollectible amounts of \$207,043 and \$301,582 for 2014 and 2013, respectively	1,633,930	1,084,673
Pharmacy, net of allowance for uncollectible amounts of \$68,229 and \$10,197 for 2014 and 2013, respectively	1,176,080	715,183
Other	2,261,840	1,275,784
Related entity, net of allowance for uncollectible amounts of \$121,862 for 2014 and 2013, respectively	67,025	69,321
Inventory	1,894,645	1,718,907
Prepaid expenses and other assets	119,534	110,372
Total current assets	10,030,617	7,842,544
Property and equipment, net	12,009,218	7,016,485
Restricted cash from line of credit	990,238	-
Other assets	370,071	512,650
Total assets	\$ 23,400,144	\$ 15,371,679
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,261,997	\$ 2,511,994
Equipment and insurance financing agreements, current portion	17,779	30,329
Deferred revenue	277,942	631,937
Deferred rent, current portion	480,952	-
Total current liabilities	5,038,670	3,174,260
Long-term liabilities		
Amount due third party vendor for pharmacy operating capital, net of current portion	-	288,104
Line of credit- construction	3,050,000	-
Deferred, rent net of current portion	1,379,853	-
Total liabilities	9,468,523	3,462,364
Commitments and contingencies (Notes 8 and 9)		
Net assets		
Unrestricted		
Board-designated for endowment	2,350,189	2,421,212
Undesignated	11,581,432	9,488,103
Total unrestricted net assets	13,931,621	11,909,315
Total liabilities and net assets	\$ 23,400,144	\$ 15,371,679

See accompanying notes to financial statements.

Whitman-Walker Health

Statements of Activities

<i>Years Ended December 31,</i>	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Patient revenue						
Net patient service revenues (Medicaid and third party revenue)	\$ 4,531,518	\$ -	\$ 4,531,518	\$ 4,672,863	\$ -	\$ 4,672,863
Sliding fee medical services	305,213	-	305,213	285,361	-	285,361
Pharmacy revenues	18,403,129	-	18,403,129	12,914,988	-	12,914,988
Total patient service revenue	23,239,860	-	23,239,860	17,873,212	-	17,873,212
Public Support						
Contracts and grants	8,705,778	-	8,705,778	7,031,283	-	7,031,283
Contributions (including CFC workplace giving)	3,057,353	-	3,057,353	2,518,597	-	2,518,597
Special events	1,103,300	-	1,103,300	1,232,347	-	1,232,347
Cost of direct donor benefits	(218,882)	-	(218,882)	(36,700)	-	(36,700)
Net assets released from restrictions:						
Satisfaction of program restrictions	-	-	-	3,589	(3,589)	-
Total public support revenue	12,647,549	-	12,647,549	10,749,116	(3,589)	10,745,527
Other revenue	474,157	-	474,157	90,559	-	90,559
Total patient, public support and other revenue	36,361,566	-	36,361,566	28,712,887	(3,589)	28,709,298
Expenses						
Program Services						
Pharmacy	13,203,502	-	13,203,502	8,718,573	-	8,718,573
Medical services	3,501,725	-	3,501,725	3,304,469	-	3,304,469
Clinic operations	1,794,087	-	1,794,087	1,587,055	-	1,587,055
Research	1,535,701	-	1,535,701	1,220,578	-	1,220,578
Behavioral/mental health	1,311,938	-	1,311,938	1,392,069	-	1,392,069
Legal	1,206,523	-	1,206,523	1,314,620	-	1,314,620
Medical adherence	1,212,309	-	1,212,309	1,146,388	-	1,146,388
Community health	1,185,362	-	1,185,362	939,222	-	939,222
Dental health	696,455	-	696,455	688,133	-	688,133
Public benefits	605,015	-	605,015	471,307	-	471,307
Mautner project	377,610	-	377,610	221,926	-	221,926
Psychiatry	422,844	-	422,844	-	-	-
STD services	420,898	-	420,898	363,692	-	363,692
Addictions/substance abuse	402,302	-	402,302	418,467	-	418,467
Day treatment	-	-	-	224,336	-	224,336
Total program services	27,876,271	-	27,876,271	22,010,835	-	22,010,835
Support Services						
Management and general	5,116,774	-	5,116,774	4,377,366	-	4,377,366
Fundraising	1,346,215	-	1,346,215	1,402,284	-	1,402,284
Total support services	6,462,989	-	6,462,989	5,779,650	-	5,779,650
Total expenses	34,339,260	-	34,339,260	27,790,485	-	27,790,485
Change in net assets	2,022,306	-	2,022,306	922,402	(3,589)	918,813
Net assets, beginning of year	11,909,315	-	11,909,315	10,986,913	3,589	10,990,502
Net assets, end of year	\$ 13,931,621	\$ -	\$ 13,931,621	\$ 11,909,315	\$ -	\$ 11,909,315

See accompanying notes to financial statements.

Year Ended December 31, 2014	Program Services														Support Services			Total		
	Pharmacy	Medical Services	Clinic Operations	Research	Behavioral/Mental Health	Legal	Medical Adherence	Community Health	Dental Health	Public Benefits	Mautner Project	Psychiatry	STD Services	Addictions/Substance Abuse	Day Treatment	Total Program Services	Management and General		Fundraising	Total Support Services
Personnel expenses	\$ -	\$ 2,620,581	\$ 1,163,026	\$ 1,206,178	\$ 1,089,111	\$ 965,457	\$ 1,089,374	\$ 703,931	\$ 482,509	\$ 567,140	\$ 263,877	\$ 411,965	\$ 169,166	\$ 345,266	\$ -	\$ 11,077,591	\$ 3,151,954	\$ 524,596	\$ 3,676,550	\$ 14,754,141
Subcontractors/consultants	-	-	137,155	22,795	12,960	12,510	-	336,074	40,894	-	2,475	-	79,448	-	-	644,311	539,603	148,530	687,953	1,332,264
Audit/professional services	-	-	400	-	15,000	-	-	-	-	-	-	-	-	-	-	15,400	170,387	-	170,387	185,787
Management fees	2,143,919	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,143,919	-	-	-	2,143,919
Medical supplies and lab fees	-	508,619	132,415	86,863	-	-	1,122	21,904	81,478	-	-	-	136,035	-	-	968,436	-	-	-	968,436
Pharmaceuticals	11,028,583	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,028,583	-	-	-	11,028,583
Facilities	31,000	198,373	117,191	92,116	159,521	91,026	70,354	75,517	36,111	35,393	11,391	10,690	27,032	33,895	-	989,610	233,399	25,306	258,705	1,248,315
Insurance	-	93,395	-	4,566	24,631	5,042	36,855	-	13,547	-	-	-	-	12,573	-	190,609	72,773	-	72,773	263,382
Other client costs	-	12,665	28,383	70,714	505	2,166	9,338	-	-	-	6,352	-	28	6,377	-	159,084	34,390	2,274	36,664	195,748
Fundraising	-	-	-	-	86,671	-	-	-	-	-	78,825	-	-	-	-	165,496	705	543,398	544,103	709,599
Advertising and other media	-	-	-	3,000	955	13,486	-	1,445	-	-	73	-	5,574	79	-	24,612	227,856	48,093	275,949	300,561
Information systems	-	27,758	204,910	5,115	202	7,466	-	2,430	-	-	-	-	88	-	-	248,343	51,882	34,665	36,547	334,890
Depreciation and amortization	-	-	-	-	-	-	-	-	39,115	-	-	-	-	-	-	39,115	326,487	-	326,487	365,602
Supplies and office expenses	-	22,251	9,312	17,005	5,808	7,934	5,091	19,561	2,427	2,482	5,409	189	1,931	2,962	-	102,362	14,531	7,296	21,827	124,189
Other expenses	-	18,083	1,285	27,349	3,245	14,765	175	1,944	-	-	9,208	-	1,596	1,150	-	78,800	292,807	12,237	305,044	383,844
Total expenses	\$ 13,203,502	\$ 3,501,725	\$ 1,794,087	\$ 1,535,701	\$ 1,311,938	\$ 1,206,523	\$ 1,212,309	\$ 1,185,362	\$ 696,455	\$ 605,015	\$ 377,610	\$ 422,844	\$ 420,898	\$ 402,302	\$ -	\$ 27,876,271	\$ 5,116,774	\$ 1,346,215	\$ 6,462,989	\$ 34,339,260

Year Ended December 31, 2013	Program Services														Support Services			Total		
	Pharmacy	Medical Services	Clinic Operations	Research	Behavioral/Mental Health	Legal	Medical Adherence	Community Health	Dental Health	Public Benefits	Mautner Project	Psychiatry	STD Services	Addictions/Substance Abuse	Day Treatment	Total Program Services	Management and General		Fundraising	Total Support Services
Personnel expenses	\$ -	\$ 2,569,281	\$ 1,009,904	\$ 936,427	\$ 1,217,789	\$ 935,950	\$ 1,015,101	\$ 646,341	\$ 465,766	\$ 428,564	\$ 132,132	\$ -	\$ 137,534	\$ 368,620	\$ 117,194	\$ 9,980,603	\$ 2,968,253	\$ 537,168	\$ 3,505,421	\$ 13,486,024
Subcontractors/consultants	-	4,339	140,250	28,993	9,728	41,621	-	94,320	47,757	-	10,299	-	74,580	-	245	452,132	455,509	157,321	612,830	1,064,962
Audit/professional services	-	1,100	467	-	15,000	-	-	-	-	-	-	-	-	-	-	16,567	202,305	-	202,305	218,872
Management fees	1,741,129	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,741,129	-	-	-	1,741,129
Medical supplies and lab fees	-	389,370	102,161	32,103	-	-	3,531	447	99,449	-	-	-	137,184	-	-	764,245	-	-	-	764,245
Pharmaceuticals	6,945,402	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,945,402	-	-	-	6,945,402
Facilities	32,042	221,190	110,344	84,996	106,256	89,944	53,365	87,348	29,803	34,187	17,006	-	3,686	26,998	84,979	982,144	(195,303)	33,139	(162,164)	819,980
Insurance	-	64,501	-	37,178	36,880	4,872	25,777	-	14,110	-	-	-	-	12,373	7,899	203,590	79,355	-	79,355	282,945
Other client costs	-	17,581	15,391	63,452	2,428	52	30,711	68,653	-	-	8,712	-	712	7,928	13,626	229,246	20,494	1,548	22,042	251,288
Fundraising	-	-	-	-	106,355	-	-	-	-	-	50	-	-	-	-	106,405	3,672	582,958	586,630	693,035
Advertising and other media	-	-	-	3,000	11,097	-	2,779	-	-	-	890	-	3,510	-	-	21,276	342,211	32,975	375,186	396,462
Information systems	-	4,365	195,768	7,726	-	6,300	11,168	4,145	-	6,426	-	-	308	-	-	236,206	37,572	811	38,383	274,599
Depreciation and amortization	-	-	-	439	-	-	-	-	27,788	-	-	-	1,696	-	-	29,923	353,943	31,557	385,500	415,423
Supplies and office expenses	-	12,246	11,598	19,340	3,863	11,657	5,532	32,024	2,260	2,130	620	-	745	1,902	393	104,310	18,835	9,301	28,136	132,446
Other expenses	-	20,496	1,172	6,924	125	106,772	1,203	3,165	1,200	-	52,217	-	3,737	646	-	197,657	90,520	15,506	106,026	303,683
Total expenses	\$ 8,718,573	\$ 3,304,469	\$ 1,587,055	\$ 1,220,578	\$ 1,392,069	\$ 1,314,620	\$ 1,146,388	\$ 939,222	\$ 688,133	\$ 471,307	\$ 221,926	\$ -	\$ 363,692	\$ 418,467	\$ 224,336	\$ 22,010,835	\$ 4,377,366	\$ 1,402,284	\$ 5,779,650	\$ 27,790,485

See accompanying notes to financial statements.

Whitman-Walker Health

Statements of Cash Flows

<i>Years Ended December 31,</i>	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 2,022,306	\$ 918,813
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	365,602	415,423
Gain on sale of property and equipment	(311,558)	-
Accounts payable and accrued expenses write off	110,800	-
(Increase) decrease in assets:		
Accounts receivable	(1,785,821)	(1,259,937)
Inventory	(175,738)	(186,660)
Prepaid expenses and other assets	133,417	(64,493)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,639,203	346,399
Amounts due third party vendor for pharmacy operating capital net of amount included in accounts payable	(288,104)	(36,823)
Deferred revenue	(353,995)	257,199
Deferred rent	1,860,805	-
Net cash provided by operating activities	3,216,917	389,921
Cash flows from investing activities		
Purchase of property and equipment	(5,720,907)	(745,681)
Proceeds from sale of property and equipment	674,130	788
Net cash used in investing activities	(5,046,777)	(744,893)
Cash flows from financing activities		
(Repayments) advances on equipment and insurance financing agreements	(12,550)	30,329
Borrowings on line of credit	2,150,000	-
Repayments on line of credit	(2,150,000)	-
Borrowings on construction line of credit	3,772,126	-
Repayments on construction line of credit	(722,126)	-
Increase in restricted cash	(990,238)	-
Net cash provided by financing activities	2,047,212	30,329
Increase (decrease) in cash and cash equivalents	217,352	(324,643)
Cash and cash equivalents, beginning of year	1,761,334	2,085,977
Cash and cash equivalents, end of year	\$ 1,978,686	\$ 1,761,334
Supplemental disclosure of cash flow information		
Cash paid during the year for interest:		
Cash paid for interest	\$ 34,559	\$ -

See accompanying notes to financial statements.

Whitman-Walker Health

Notes to Financial Statements

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 (FQHC) look-alike in early 2007 and a 330 grant funded FQHC in November, 2013. 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, 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.

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

Accounts receivable - Grants and Contracts

Grants and contracts, including grants that are expected to be collected within one year are recorded at net realizable value. WWH records an allowance for doubtful accounts on its outstanding receivables based on its collection history, analysis of subsequent collections, and specific identification of uncollectible accounts. No allowance was deemed necessary as of December 31, 2014 and 2013. Credit risk with respect to grants and contracts receivable is limited because WWH deals with governmental organizations with consistent history of payment.

Accounts receivable- Medicaid and other third parties

Accounts receivable, Medicaid and other 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.

Accounts receivable- Other

Other accounts receivable are reported at net realizable value. The balance largely consists of Aids Drug Assistance Program (ADAP) prescription fulfillments that are to be replenished by a government organization once inventory items reaches a certain Periodic Automatic Replenishment (PAR) level. 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. The inventory carrying value of inventory is affected by changes in 340B pricing, valuation changes in replenished drugs and expired drugs write-off and funds received for expired drugs. These adjustments are included as part of pharmacy expenses in the accompanying statements of functional expenses and are a regular part of pharmacy activity.

Whitman-Walker Health

Notes to Financial Statements

Property and equipment

Property and equipment is carried at cost, less accumulated depreciation. Depreciation and amortization 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 property and equipment 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.

Deferred revenue

WWH accounts for government grant receipts as exchange transactions. Deferred revenue 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 deferred revenue at December 31, 2014 and 2013 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. WWH had no temporarily restricted assets at December 31, 2014 or 2013.

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 2014 or 2013.

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

Whitman-Walker Health

Notes to Financial Statements

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 \$335,406 and \$327,745 for years ended December 31, 2014 and 2013, 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.

WWH typically have more than 1,000 active volunteers annually 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.

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 pharmacy services, medical services, clinic operations, research, behavioral/mental health, legal, medical adherence, community health, dental health, public benefits, Mautner project, psychiatry, addictions/substance abuse and STD 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.

Whitman-Walker Health

Notes to Financial Statements

Support services include management and general expenses and fundraising. 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. 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.

WWH accounts for joint costs incurred for informational materials and activities that are included in fundraising appeals in determining costs to be allocated. For the years ended December 31, 2014 and 2013, WWH incurred joint costs of \$152,769 and \$32,057, respectively. Of those costs, \$44,774 and \$2,405 were allocated to fundraising expense, \$16,711 and \$5,594 were allocated to management and general expenses in 2014 and 2013, respectively.

Also in 2014, incurred joint costs of \$90,625 were allocated to public awareness and \$658 were allocated to public advocacy. In 2013, incurred joint costs of \$23,899 were allocated to community health and \$159 to public benefits.

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, 2014, WWH's credit risks were related to cash and cash equivalents (see Note 3) and third party receivables. Concentrations of credit risk with respect to third party receivables are as follows at December 31:

Payor mix	2014	2013
Medicaid	24%	57%
Other third-party payors	23%	13%
Medicare	36%	12%
Patients	10%	11%
DC Alliance	7%	7%
	100%	100%

Recent accounting pronouncements

In April 2013, the FASB issued Accounting Standards Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate* (ASU 2013-06). The amendments in ASU 2013-06 require a recipient not-for-profit (NFP) to recognize all services from personnel of an affiliate that directly benefit the

Whitman-Walker Health

Notes to Financial Statements

recipient NFP entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendment is effective prospectively for fiscal years beginning after June 15, 2014. WWH is currently evaluating the effect the provisions of ASU 2013-06 will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires a NFP entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The amendment is effective for fiscal years beginning after December 15, 2017. WWH is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

Reclassifications

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform to the fiscal year 2014 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 August 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 2011.

3. Uninsured Balances

WWH maintains cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) limit. While the amounts in the bank accounts at times may exceed the amount guaranteed by federal agencies, and therefore bear some risk, WWH has not experienced any loss of funds.

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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, 2014 and 2013. 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, 2014 and 2013.

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2014	2013
Land	\$ 1,185,432	\$ 1,262,532
Building and leasehold improvements	7,209,476	7,711,611
Construction in progress	6,237,370	568,067
Furniture, equipment, and software	3,808,179	3,757,831
Transportation equipment	289,407	289,407
	<u>18,729,864</u>	<u>13,589,448</u>
Less: accumulated depreciation and amortization	<u>(6,720,646)</u>	<u>(6,572,963)</u>
Net property and equipment	<u>\$ 12,009,218</u>	<u>\$ 7,016,485</u>

Depreciation and amortization expense was \$365,602 and \$415,423 for the years ended December 31, 2014 and 2013, respectively.

6. Restricted Cash- Interest Reserve Account

The line of credit for tenant improvements, furniture and equipment (refer to Note 7), requires that \$1,000,000 of loan proceeds be placed in an escrow agent interest reserve account throughout duration of the line of credit. As a result, restricted cash included in the statement of financial position from these funds were \$990,238 and \$0 as of December 31, 2014 and 2013 respectively.

7. 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 August 1, 2015. The interest rate is the Wall Street Journal Prime Rate (3.25% at December 31, 2014) plus 1% (with a floor of 4.75%).. There was no balance outstanding on this line of credit as of December 31, 2014 and 2013.

In June 2014, WWH entered into a line of credit for tenant improvements, furniture and equipment for relocation for the move to 1525 14th Street. The interest rate on the line of credit is the Wall Street Journal Prime Rate (3.25% at December 31, 2014) with a floor of 5%. The line of credit matures 24 months from closing (June 18, 2016). Under the covenants associated with the line of credit, WWH is required to maintain: a debt service coverage ratio of at least 1.25 to 1.0, measured annually as of the last day of each fiscal year, commencing with the fiscal year ended

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December 31, 2013. At December 31, 2014, WWH was in compliance with its covenants. The line of credit had an outstanding balance of \$3,050,000 and \$0 as of December 31, 2014 and 2013, respectively.

8. Retirement Plan

WWH sponsors a Section 403(b) defined contribution retirement plan for all employees (i.e. those persons employed by WWH). 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 \$395,491 and \$272,296 for the years ended December 31, 2014 and 2013, respectively.

9. Commitments

Pharmacy Operations

WWH is committed under an agreement with a third party to manage and operate WWH's in-house pharmacy through February 2016. The agreement requires WWH to repay the third party for its capital investment of \$190,000. The capital investment is required to be repaid by WWH at a rate of \$5,247 per month over the term of the contract. 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.

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, 2014 and 2013, the total amount owed to the third party pursuant to these agreements was \$195,662 and \$288,104, respectively and is recorded in accounts payable and accrued expenses in the accompanying statements of financial position.

Lease-Building

In November 2012, WWH entered into an operating lease agreement for a building currently being constructed at 1525 14th 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 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 \$143,579 or \$71,789 per month]. This abatement is for the base monthly rent only, and does not include real estate taxes or operating expenses.

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During the extension term, WWH has sole option to extend the lease for up to two (2) consecutive additional periods of five (5) years.

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. Rent expense, which is included in operating expenses, was \$497,894 in 2014. The lease also provided for a tenant improvement allowance and an abatement of one-half the monthly base rent payable for each of the first three months of the lease term. Future payments under the agreements are as follows:

Years ending December 31:

2015	\$ 1,883,190
2016	1,888,185
2017	1,944,831
2018	2,003,176
2019	2,063,271
Thereafter	10,702,389
	<hr/>
	\$ 20,435,042

Leases-Equipment

WWH leases office facilities and equipment under various operating leases, which expire through 2018. The operating lease expense was \$188,085 and \$175,843 for the years ended December 31, 2014 and 2013, respectively.

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

Years ending December 31:

2015	\$ 260,115
2016	253,076
2017	103,346
2018	21,464
	<hr/>
	\$ 638,001

Equipment Financing Agreement

In April of 2013, WWH entered into a software licenses and financing agreement for a software system and organizational insurance coverage. The software financing agreement requires 36 monthly non-interest payments of \$7,933 beginning May 2013. Total payments remaining at December 31, 2014 were \$17,779.

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10. 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.

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.

11. 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 \$175,451 and \$295,286 is reflected as an accrued expense in the statements of financial position at December 31, 2014 and 2013, respectively.

12. Net Assets - Board Designated

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 designated assets had the following assets at December 31:

	2014	2013
Land and buildings	\$ 3,240,398	\$ 3,240,398
Less: accumulated depreciation and amortization	(890,209)	(819,186)
Total assets	\$ 2,350,189	\$ 2,421,212

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

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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 (SEIU), District 1199E-DC, AFL-CIO-CLC. 62% and 58% of WWH's labor force was covered under the collective bargaining agreement as of December 31, 2014 and 2013, respectively. 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 February 2, 2015, WWH announced a collaboration with Metro TeenAIDS (MTA) to provide HIV and other health and wellness programs and services to young people and their families. This collaboration will bring MTA program and staff under WWH's operation.

On May 18, 2015, WWH officially opened its doors to patients at 1525 14th Street, NW location.

WWH has formed a separate corporation named "Whitman-Walker 1701 14th Street Owner, LLC."

Subsequent events were evaluated through August 10, 2015, which is the date the financial statements were available to be issued. There were no other events or transactions which would require adjustments or disclosure to these financial statements.