University Muslim Medical Association, Inc.

Financial and Compliance Report
December 31, 2011

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

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Independent Auditor's Report on the Financial Statements

To the Board of Directors
University Muslim Medical Association, Inc.
Los Angeles, CA

We have audited the accompanying balance sheets of University Muslim Medical Association, Inc. (UMMA) as of December 31, 2011 and 2010, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of UMMA's management. 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 (U.S. GAAS) 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UMMA as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 28, 2012 and 2011, on our consideration of UMMA'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 those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the information is fairly stated in all material aspects in relation to the financial statements as a whole.

McGladrey LLP

Los Angeles, CA
September 28, 2012

University Muslim Medical Association, Inc.

Balance Sheets
December 31, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Cash	**$ 1,102,359**	$ 934,144
Patient services receivable, net of allowance for uncollectible accounts of $9,000 and $0 in 2011 and 2010, respectively (Note 5)	**193,796**	83,928
Third-party settlements receivable	**119,406**	-
DHHS grants receivable	**-**	29,248
Other grants and contributions receivable (Note 6)	**63,539**	139,320
Pledges receivable, net (Note 7)	**55,000**	-
Prepaid expenses and other current assets	**45,958**	38,599
Total current assets	**1,580,058**	1,225,239
Property and Equipment (Note 9)		
Land	**656,000**	656,000
Building and building improvements	**961,659**	280,083
Furniture and equipment	**453,530**	350,338
Leasehold improvements	**42,565**	42,565
Construction in progress	**-**	364,516
	2,113,754	1,693,502
Less accumulated depreciation and amortization	**339,781**	259,688
Net property and equipment	**1,773,973**	1,433,814
	$ 3,354,031	$ 2,659,053

Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 70,602**	$ 68,969
Accrued compensation	**151,740**	135,193
Refundable advance (Note 9)	**623,948**	713,275
Total current liabilities	**846,290**	917,437
Commitments and Contingencies (Notes 12 and 13)		
Net Assets		
Unrestricted	**1,856,468**	1,300,866
Temporarily restricted (Note 8)	**651,273**	440,750
Total net assets	**2,507,741**	1,741,616
Total liabilities and net assets	**$ 3,354,031**	$ 2,659,053

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statements of Operations and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted revenue:		
Patient services, net	**$ 1,599,070**	$ 825,406
DHHS grants	**560,670**	582,060
Contract services—County of Los Angeles Department of Health	**270,912**	259,539
Foundation grants and contributions	**997,922**	582,988
Donated services and gift-in-kind	**217,596**	177,118
Other	**18,918**	15,317
Net assets released from restriction	**295,756**	220,460
Total unrestricted revenue	**3,960,844**	2,662,888
Expenses:		
Salaries and wages	**1,703,945**	1,446,831
Consultants and contractual services	**334,179**	396,368
Fringe benefits	**321,295**	261,828
Donated goods and services	**217,596**	177,118
Consumable supplies	**166,327**	145,933
Repairs and maintenance	**146,719**	90,714
Other	**10,820**	3,315
Fundraising events	**197,309**	19,485
Public relations and promotions	**169,053**	43,128
Professional fees	**38,164**	63,747
Depreciation	**80,093**	60,780
Space costs	**57,688**	50,759
Telephone	**45,967**	45,894
Staff development	**24,083**	32,719
Printing, publications and postage	**18,822**	23,339
Insurance	**44,635**	39,708
Dues and subscriptions	**17,396**	19,033
Provision for bad debt	**13,290**	-
Travel, conferences and meetings	**20,885**	15,421
Total expenses	**3,628,266**	2,936,120
Excess (deficit) of revenues and support over expenses	**332,578**	(273,232)
Nonoperating revenue:		
Donated equipment (Note 9)	**89,324**	86,725
Grants and contributions for capital expenditures	**-**	340,400
Net assets released from restriction—capital expenditures	**133,700**	-
Increase in unrestricted net assets	**555,602**	153,893
Temporarily restricted net assets:		
Foundation grants and contributions for a specific program	**639,979**	426,937
Net assets released from restrictions	**(429,456)**	(220,460)
Increase in temporarily restricted net assets	**210,523**	206,477
Increase in net assets	**766,125**	360,370
Net Assets, beginning of year	**1,741,616**	1,381,246
Net Assets, end of year	**$ 2,507,741**	$ 1,741,616

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Increase in net assets	**$ 766,125**	$ 360,370
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	**80,093**	60,781
Provision for bad debt	**13,290**	-
Donated property, plant and equipment	**(89,324)**	(86,725)
Contributions for capital expenditures	**(133,700)**	(340,400)
Changes in operating assets and liabilities:		
(Increase) decrease in patient services receivable	**(123,158)**	94,373
(Increase) decrease in third-party settlements receivable	**(119,406)**	-
(Increase) decrease in DHHS receivable	**29,248**	(29,248)
(Increase) decrease in grants and contributions receivable	**75,781**	(134,418)
(Increase) decrease in pledges receivable	**(55,000)**	-
(Increase) in prepaid expenses and other	**(7,362)**	(1,566)
Increase in accounts payable and accrued expenses	**1,633**	60,612
Increase in accrued compensation	**16,547**	23,165
Net cash provided by operating activities	**454,767**	6,944
Cash Flows From Investing Activities		
Purchase of property and equipment	**(420,252)**	(369,643)
Cash Flows From Financing Activities		
Cash received from grants for capital expenditures	**133,700**	340,400
Net increase (decrease) in cash	**168,215**	(22,299)
Cash		
Beginning	**934,144**	956,443
Ending	**$ 1,102,359**	934,144
Supplemental Disclosure of Noncash Financing Activity		
Capital acquisitions funded through accounts payable	**$ -**	$ 1,069

See Notes to Financial Statements.

Note 1. Organization

Organization: University Muslim Medical Association, Inc. (UMMA) operates a not-for-profit healthcare center in Los Angeles, California. UMMA provides a broad range of health services to an impoverished and medically underserved community, regardless of ability to pay.

The U.S. Department of Health and Human Services (DHHS) provides substantial support to UMMA. UMMA is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Note 2. Significant Accounting Policies

Basis of presentation: UMMA classifies its net assets into three categories: unrestricted, temporarily restricted and permanently restricted.

- Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of UMMA and are not subject to donor-imposed stipulations.

- Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of UMMA and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of operations and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements.

- Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by UMMA. There were no permanently restricted net assets at December 31, 2011 and 2010.

Results of operations: The statements of operations and changes in net assets include the excess (deficit) of revenue and support over expenses that represent the results of operations. Changes in unrestricted net assets, which are excluded from excess of revenue and support over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets).

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is related primarily to the determination for allowance for doubtful accounts in calculation of net patient services receivable, allowance for doubtful pledges receivable and estimated third-party payor settlement payable or receivable.

Cash: UMMA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. UMMA has not experienced any losses in such accounts.

Note 2. Significant Accounting Policies (Continued)

Patient services receivable: The collection of receivables from third-party payors (consisting of Medi-Cal, fee-for-service contracts, managed care contracts and L.A. County Public Private Partnership (PPP) contracts, which includes a newly created L.A. County program, Healthy Way LA) and patients is UMMA's primary source of cash for operations and is critical to its operating performance. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments, discounts provided to third-party payors and allowances for doubtful accounts.

Receivables due directly from patients are carried at the original charge for the service provided, less discounts provided under UMMA's charity care policy, amounts covered by third-party payors and an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and applying historical experience to an aging of accounts. UMMA considers accounts past due when they are outstanding beyond 60 days with no payment. UMMA generally does not charge interest on past due accounts. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. As of December 31, 2011, an allowance for doubtful accounts of $9,000 was included in accounts receivable. There were no allowances for doubtful accounts at December 31, 2010.

Grants, contributions and pledges receivable: Grants, contributions and pledges receivable reflect amounts earned but not yet collected for which UMMA expects to realize payment.

Property and equipment: Property and equipment are recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets ranging from three to 39 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. UMMA capitalizes all purchases of property and equipment in excess of $2,000.

According to federal regulations, any equipment items obtained through federal funds are subject to a lien by the federal government. As long as UMMA maintains its tax-exempt status, or so long as the equipment is used for its intended purpose, UMMA is not required to reimburse the federal government. If the stated requirements are not met, UMMA would be obligated to the federal government to return the equipment or reimburse an amount equal to the fair value of the equipment.

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to Public Health Services or third parties.

Patient services revenue: UMMA has agreements with third-party payors that provide for payments to UMMA at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. UMMA provides care to certain patients under Medi-Cal and LA County payment arrangements. Laws and regulations governing the Medi-Cal and LA County programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges net of charitable allowances calculated on a sliding fee scale based on patient income to arrive at net self-pay revenue.

Note 2. Significant Accounting Policies (Continued)

Estimated third-party payor settlements: Certain of UMMA's arrangements with third-party payors provide for interim reimbursement that is subject to retroactive adjustment and settlement. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grant revenue: Grants are recognized as revenue when earned. Expense-driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred.

At December 31, 2011, UMMA has received grants from governmental entities in the aggregate amount of $151,297 that have not been recorded in these financial statements as they have not been earned. These grants require UMMA to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating support, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired.

Contract service revenue: Contract service revenue is recognized as revenue when it is earned.

Donated services and gifts-in-kind: Contributions of donated pharmaceuticals, equipment and services are reported as revenue at fair value. Services are recognized only if service creates or enhances nonfinancial assets, or if they require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by UMMA if they had not been donated.

Contributions: Contributions, some of which are multi-year, are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they have donor stipulations that limit the use of the donated asset. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met during the same fiscal year are recognized as unrestricted revenue. Contributions awarded for the acquisition of long-lived assets are reported as nonoperating revenue. Conditional contributions received are recorded as refundable advances and will be recognized as the conditions are met.

Tax status: UMMA was incorporated as a not-for-profit corporation under the laws of the State of California and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. In addition, UMMA is not classified as a private foundation.

UMMA may recognize tax liabilities when, despite UMMA's belief that its tax return positions are supportable, UMMA believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments would be included in income tax expense. There is no liability for uncertain tax positions at December 31, 2011 and 2010.

Note 2. Significant Accounting Policies (Continued)

Management evaluated UMMA's tax positions and concluded that UMMA had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, UMMA is no longer subject to income tax examinations by U.S. federal, state or local authorities for years before 2008, which is the standard statute of limitations look-back period.

Reclassifications: Certain expenses and revenues in the statement of operations and changes in net assets for the year ended December 31, 2010 have been reclassified, with no effect on net assets, to be consistent with the classifications adopted for the year ended December 31, 2011.

Subsequent events: UMMA evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation was performed through September 28, 2012, the date the financial statements were available to be issued.

Note 3. Net Patient Services Revenue

UMMA has agreements with third-party payors that provide for reimbursement to UMMA at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between UMMA's billings at list price and the amounts reimbursed by Medicare, Medi-Cal and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payors follows:

Other third-party and managed care: UMMA has also entered into reimbursement agreements with certain non-Medi-Cal commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem rates.

For the years ended December 31, 2011 and 2010, the combined LA County PPP and Healthy Way LA contracts represented approximately 45 percent and 36 percent, respectively, and managed care represented 43 percent and 47 percent, respectively, of net patient revenues from services provided.

Medi-Cal: UMMA is paid for patient services rendered to Medi-Cal program beneficiaries primarily under contractual agreements with third-party Medi-Cal managed care organizations. Additional wrap-around reimbursement by the California Department of Public Welfare is generally paid quarterly on a per-encounter basis, according to a cost-based reimbursement system.

For the years ended December 31, 2011 and 2010, UMMA recognized approximately 12 percent and 17 percent, respectively, of net patient services revenue from services provided to Medi-Cal patients.

Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. UMMA believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Los Angeles County and Medi-Cal programs.

Note 4. Charity Care and Social Accountability

UMMA is a not-for-profit health care provider established to meet the health care needs of area residents. UMMA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since UMMA does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. UMMA maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided during the years ended December 31, 2011 and 2010 amounted approximately to $46,000 and $83,000, respectively.

Note 5. Concentration of Credit Risk

UMMA grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The patient services receivables, a breakdown from third-party and patient payor, that do not reflect patient visit mix are as follows:

	Net Receivables	
	2011	2010
Medi-Cal	43%	2%
Managed Care	16%	26%
LA County PPP and Healthy Way LA	39%	70%
Other third-party payor	2%	0%
Self-pay	0%	2%
	100%	100%

Note 6. Other Grants and Contributions Receivable

Other grants and contributions receivable consist of the following for the years ended December 31:

	2011	2010
California Community Foundation	$ 31,250	$ 93,750
CCCEP—Infrastructure Capital Expansion	-	15,570
Los Angeles County, Department of Health Services	32,289	-
Other	-	30,000
	$ 63,539	$ 139,320

Note 7. Pledges Receivable

Pledges are generally recognized as revenue when unconditional pledges are made at the present value of expected future payments. Pledges receivable are scheduled to be received at December 31 as follows:

	2011	2010
Due in one year or less	$ 55,000	$ -
Due after one year through three years	45,000	-
Total pledges receivable	100,000	-
Less allowance for doubtful pledges	(45,000)	-
Pledges receivable, net	$ 55,000	$ -

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	Balance December 31, 2010	Net Asset Additions	Net Assets Released	Balance December 31, 2011
Primary & Preventive Care	$ 12,000	$ 58,333	$ 12,000	$ 58,333
Promoting Health in South Los Angeles	117,450	-	86,200	31,250
Healthcare Services 0-18 Years	12,500	-	12,500	-
Assistant Director and Services Expansion	61,000	125,000	111,000	75,000
Facilities Expansion	110,000	-	110,000	-
Zakat	93,974	25,902	97,756	22,120
Pillars of Tolerance Project	33,826	-	-	33,826
School-Based Services	-	230,000	-	230,000
Adult Care Services	-	50,000	-	50,000
Fremont	-	50,000	-	50,000
Pledges Receivable	-	55,000	-	55,000
Pediatrics	-	25,000	-	25,000
Various Purposes	-	20,744	-	20,744
	$ 440,750	$ 639,979	$ 429,456	$ 651,273

Note 9. Donated Equipment and Services

Donated equipment and services consist of the following for the years ended December 31:

	2011		2010
In-kind contributions:			
Pharmaceuticals	$ 211,616		$ 166,978
Donated property	89,324	*	86,725
Donated services	5,980		10,140
	$ 306,920		$ 263,843

* On March 23, 2009, UMMA entered into an agreement with the Community Redevelopment Corporation of Los Angeles (CRC/LA) to receive property from CRC/LA as a conditional contribution. UMMA is required per the agreement to provide medical services equivalent to $800,000, which shall be reduced by providing eligible services over a 10-year period, from inception, August 2009, through August 2019, as set forth in the service agreement. In addition, per the service agreement, UMMA is required to provide a minimum number of eligible visits per year.

Note 10. Functional Expenses

Expenses were incurred and allocated as follows for the years ended December 31:

	2011	2010
Program services	$ 2,382,027	$ 1,890,909
General and administrative	750,471	733,121
Fundraising	495,768	312,090
	$ 3,628,266	$ 2,936,120

Note 11. Contracts, Foundation Grants and Contributions

For the years ended December 31, UMMA recognized the following contracts and other grants:

	2011	2010
Contributions gifts and other grants	$ 1,018,666	$ 622,488
LA County—Strategic Initiative Program & Clinic Capacity Expansion Project	-	259,539
LA Care Health Plan	125,000	170,000
California Community Foundation	50,000	162,500
Islamic Relief	-	30,000
The California Endowment	230,000	-
Zakat	25,902	24,937
California Wellness Foundation	58,333	-
Pledges Receivable	55,000	-
Fereshteh Amin	50,000	-
Crail Johnshon Foundation	25,000	-
	$ 1,637,901	$ 1,269,464

Note 12. Operating Lease

UMMA entered into a noncancelable operating lease for facility space. Minimum lease payments recognized on a straight-line basis are as follows:

Year Ending December 31,	Amount
2012	$ 34,000
2013	11,000
	$ 45,000

Aggregate space costs for the years ended December 31, 2011 and 2010 amounted to $57,688 and $50,579, respectively, including utilities and other common charges.

UMMA entered into an administrative office lease effective from August 1, 2012 through July 30, 2017. The base rent increases incrementally each year from $7,000 per month in the first year to $8,600 per month in the final year. UMMA has the option to renew the lease for two 60-month periods. As a result, the administrative office lease, with less than one year remaining on the contract, was terminated. The cost to exit the previous lease has not been determined.

Note 13. Commitments and Contingencies

Contracted services: UMMA contracts with other agencies to perform certain healthcare services and receives Medi-Cal and PPP program of Los Angeles County (PPP and Healthy Way LA) revenue from the state and local governments. Reimbursements received under these contracts and payments under Medi-Cal and Los Angeles County are subject to audit by state and local governments and agencies. Upon audit, if discrepancies are discovered, UMMA could be held responsible for refunding the amounts in question.

Medi-Cal and PPP revenue is reimbursed to UMMA at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred. Settlements from third-party payors for the years ended December 31, 2011 and 2010 resulted in net settlement revenue of approximately $308,000 in 2011 and payments of approximately $32,000 in 2010, which have been included in patient revenue in the accompanying statements of operations and changes in net assets. In May 2012, UMMA received notification from Medi-Cal of final settlement for 2008 reimbursements resulting in recognition of third-party settlement receivables of approximately $119,000. There were no associated receivables as of December 31, 2010. As of December 31, 2011, the 2011 Medi-Cal settlement remains open.

Insurance: Professional and general liability insurance coverage is provided on both a claims-made basis and an occurrence basis. The claims-made policy, which is subject to renewal on an annual basis, covers only claims made during the term of the policy but not those occurrences for which claims may be made after expiration of the policy. UMMA intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. Additionally, UMMA believes that there is no significant exposure for claims incurred but not reported.

Note 14. New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954)—Measuring Charity Care for Disclosure*. ASU 2010-23 requires disclosure of charity care based on the healthcare provider's direct and indirect costs of providing charity care services, the method used to identify or estimate such costs, and funds received to offset or subsidize charity services provided. The disclosures required by ASU 2010-23 are effective for the fiscal year beginning after December 15, 2010 and must be applied retroactively. UMMA is assessing the impact of the implementation of ASU 2010-23 on the disclosures in its financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954)—Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 clarifies that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, ASU 2010-24 provides that the amount of the claims liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Entities must apply the provisions of ASU 2010-24 by recording a cumulative-effect adjustment to opening unrestricted net assets as of the beginning of the period of adoption. Retroactive application of the provisions of ASU 2010-24 is permitted. UMMA is assessing the impact of the implementation of ASU 2010-24 on its financial statements.

University Muslim Medical Association, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant or Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct programs:			
Consolidated Health Centers	93.224	H80CS10609	$ 537,815
ARRA—Increase Services to Health Centers	93.703	H8BCS11832	22,855
Total expenditures of federal awards			$ 560,670

See Notes to Schedule of Expenditures of Federal Awards.

CFDA = Catalog of Federal Domestic Assistance

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of UMMA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (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.

Note 2. Subrecipients

UMMA provided no federal awards to subrecipients for the year ended December 31, 2011.

McGladrey

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
University Muslim Medical Association, Inc.
Los Angeles, CA

We have audited the financial statements of University Muslim Medical Association, Inc. (UMMA) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 28, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

UMMA's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered UMMA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UMMA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UMMA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness; therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider item 11-04 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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. We consider item 11-03 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UMMA'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to UMMA's management in a separate letter dated September 28, 2012.

UMMA's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit UMMA's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the finance committee, the Board of Directors and others within the entity, as well as federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

Los Angeles, CA
September 28, 2012

McGladrey

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
University Muslim Medical Association, Inc.
Los Angeles, CA

Compliance

We have audited the compliance of University Muslim Medical Association, Inc. (UMMA) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on UMMA's major federal program for the year ended December 31, 2011. UMMA's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of UMMA's management. Our responsibility is to express an opinion on UMMA's compliance based on our audit.

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 UMMA'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. Our audit does not provide a legal determination on UMMA's compliance with those requirements.

In our opinion, UMMA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, 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 11-01.

Internal Control Over Compliance

UMMA's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UMMA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 UMMA's internal control over compliance.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-02 to be a significant deficiency.

UMMA's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit UMMA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the finance committee, the Board of Directors and others within the entity, as well as federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

Los Angeles, CA
September 28, 2012

University Muslim Medical Association, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

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? ___X___ Yes _______ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___X___ Yes _______ No
- 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 that are not considered to be material weaknesses? ___X___ Yes _______ No

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 Section 510(a) of OMB Circular A-133? ___X___ Yes _______ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.224	U.S. Department of Health and Human Services Consolidated Health Centers

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

Auditee qualified as low-risk auditee? _______ Yes ___X___ No

Section II—Financial Statement

11-03 Temporarily Restricted Grants and Contributions

Criteria: The financial statements must be prepared in accordance with U.S. GAAP.

Condition: Net assets and contributions were not reported in accordance with Accounting Standards Codification (ASC) 958 (formerly Financial Accounting Standard (FAS) 116). Contributions with donor-imposed restrictions (time restrictions or purpose restrictions, or both) need to be recorded as restricted revenue. Adjusting journal entries were recorded at year-end to reclassify contributions and net assets.

Context: UMMA recorded contribution revenue when payments were received or earned as unrestricted contributions rather than temporarily restricted contributions. As a result of our audit procedures, we identified an understatement of temporarily restricted net assets and overstatement of unrestricted net assets of approximately $256,000 and $198,000, respectively.

Effect: Improper revenue recognition results in inaccurate reporting of financial results.

Recommendation: We recommend UMMA implement procedures to record revenues when earned and properly classify the revenue and net assets based on any restrictions imposed by the donor. Additionally, UMMA should maintain a rollforward schedule of restricted net assets. Additions and releases of restricted contributions should be captured in the rollforward schedule. When a donor restriction expires, temporarily restricted net assets should be reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restriction.

Views of management and corrective action plan: UMMA recognizes the findings from the prior year and instituted a rollforward schedule with classification guidance from auditing firm. However, the translation of the appropriated reporting requirements from auditing firm to client did not produce the desired results. Thus, the issue carried over into the current reporting year, so to ensure proper classification, UMMA will continue to consult with its auditing firm on the classification of all grant revenue received. In addition, the amended recommendation of quarterly updates will be incorporated in our process.

11-04 Identification and Classification of Significant Estimates

Criteria: The financial statements must be prepared in accordance with U.S. GAAP.

Condition: The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. Several estimates were recorded as the result of auditor testing of significant estimates.

Context: UMMA's significant estimates relate primarily to the determination of estimated pledge receivable reserves, allowance for doubtful accounts in collection of net patient services receivable, and the determination of contingent receivables or liabilities related to the settlement of third-party payor reimbursements upon completion of an audit by either the Department of Health and Children Services for Medi-Cal claims, or Los Angeles County for PPP and Healthy Way LA claims. Audit adjustments for additional reserves of $54,000 for pledges and patient service receivables and a third-party payor settlement receivable of approximately $119,000 were recorded for the year ended December 31, 2011.

Effect: Improper estimation of significant reserve and contingency estimates will lead to inaccurate reporting of financial results.

Management corrective action plan: UMMA will develop a methodology to determine estimates for the noted receivables and implement for the upcoming financial reporting year.

Section III—Federal Awards

11-01 Regulatory Reporting

United States Department of Health and Human Services: Consolidated Health Centers (CFDA #93.224)

Criteria: As prescribed by the DHHS, the annual financial status report (FSR) should be filed ninety (90) days after the end of the grant period and reconciled to the audited financial statements for each grant period.

Condition: We noted that UMMA's annual FSR for the Community Health Center grant (330 grant) budget period ended April 30, 2011 was filed on August 7, 2011.

Questioned Costs: None

Effect: Noncompliance with regulatory reporting requirements may lead to penalties and other sanctions from the funding agencies.

Cause: Delinquent submission at interim reporting dates.

Recommendation: We recommend that UMMA file annual reports timely.

Views of management and corrective action plan: Management concurs with this finding and will ensure that future reports are submitted timely and are adequately supported by pertinent records.

11-02 Activities Allowed or Unallowed – Lack of Controls Over Payroll

United States Department of Health and Human Services: Consolidated Health Centers (CFDA #93.224)

Criteria: Employee work hours recorded and coded as worked on the timecard should reconcile to payroll register.

Condition: During review of sixty (60) transactions, we noted that three (5 percent) employee hours, per timecards, did not match the hours paid per the payroll register.

Questioned Costs: None

Effect: Errors in timecards may result in the submission of unallowable costs and activities causing noncompliance with OMB Circular A-133.

Cause: Lack of enforcement of current policies and procedures.

Recommendation: We recommend that UMMA enforce policies and procedures and control procedures to ensure that the hours on employees' timecards match the hours per the payroll register.

Views of management and corrective action plan: Human resources department personnel will review timesheets against the detail payroll register each pay period and forward to the accounting department (accounting director or designee) for review. The reviewed documents will be returned to the human resources department, which will then submit to an outsourced payroll processing service.

10-01 Temporarily Restricted Grants and Contributions

Criteria: The financial statements must be prepared in accordance with U.S. GAAP.

Condition: Net assets and contributions were not reported in accordance with ASC 958 (formerly FAS 116). Contributions with donor-imposed restrictions (time restrictions or purpose restrictions, or both) need to be recorded as restricted revenue. An adjusting journal entry was recorded at year-end to make that change.

Context: We noted that UMMA recorded contribution revenue when payments were received rather than when earned. This resulted in the identified understatement of contributions receivable and temporarily restricted revenue in an amount of $243,750. Additionally, UMMA recorded $119,200 as unrestricted revenue rather than as temporarily restricted net assets.

Effect: Improper revenue recognition will lead to inaccurate reporting of financial results.

Recommendation: We recommend UMMA implement procedures to record revenues when earned and properly classify the revenue and net assets based on any restrictions imposed by the donor. Additionally, UMMA should maintain a periodic rollforward schedule of restricted net assets. Additions and releases of restricted contributions should be captured in the rollforward schedule. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restriction.

Views of management and corrective action plan: Management concurs with this finding and is committed to ensuring a change in the particular accounting practice referenced in the letter.

Status: Implemented as of December 31, 2011.

10-02 Regulatory Reporting

United States Department of Health and Human Services: Consolidated Health Centers (CFDA #93.224)

Criteria: As prescribed by the DHHS, the annual FSR should be filed ninety (90) days after the end of the grant period and reconciled to the audited financial statements for each grant period. The quarterly federal financial report (FFR) should be filed thirty (30) days after the end of the calendar quarter. The American Recovery and Reinvestment Act (ARRA) quarterly progress reports should be filed ten (10) days after the end of the calendar quarter.

Condition: We noted that UMMA's annual FSR for the Community Health Center grant (330 grant) budget period ended April 30, 2010 was filed on December 7, 2010. The 1st quarter FFR report for the 330 grant was filed on May 19, 2010. The ARRA quarterly progress report for the 2nd quarter was filed on July 14, 2010. These reports were not filed timely. Additionally, the amount of cash disbursement reported on the 1st quarter FFR for the 330 grant does not tie to the system-generated report of the grant draw-down ($4,285 versus $121,368).

Questioned Costs: None

Context: In testing the compliance requirement for reporting, we noted quarterly reports were not filed timely or accurately.

Effect: Noncompliance with regulatory reporting requirements may lead to penalties and other sanctions from the funding agencies.

Cause: Incorrect reporting of information and delinquent submission at interim reporting dates.

Recommendation: We recommend that UMMA prepare and reconcile the FSRs/FFRs to the audited financial statements and supporting draw-down schedules, respectively. UMMA should file the quarterly and annual reports timely.

Views of management and corrective action plan: Management concurs with this finding and will ensure that future reports are submitted timely and are adequately supported by pertinent records.

Status: Partially implemented as of December 31, 2011.