

**University Muslim Medical
Association, Inc.**

Financial Report

December 31, 2009

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Independent Auditor's Report

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

We have audited the accompanying balance sheet of University Muslim Medical Association, Inc. ("UMMA") as of December 31, 2009, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

New York, New York
October 13, 2010

University Muslim Medical Association, Inc.

Balance Sheet
December 31, 2009

ASSETS

Current Assets:

| | |
|---|---------------|
| Cash | \$ 956,443 |
| Patient services receivable, net (Note 3) | 178,301 |
| Contracts receivable | 4,902 |
| Prepaid expenses and other | <u>37,033</u> |

Total current assets 1,176,679

Property and Equipment, net (Note 4) 1,124,952

Total assets \$ 2,301,631

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 7,912 |
| Accrued compensation | 112,473 |
| Refundable advance (Note 4) | <u>800,000</u> |

Total current liabilities 920,385

Commitments and Contingencies (Notes 4, 5 and 9)

Net Assets:

| | |
|---------------------------------|----------------|
| Unrestricted | 1,146,973 |
| Temporarily restricted (Note 7) | <u>234,273</u> |

Total net assets 1,381,246

Total liabilities and net assets \$ 2,301,631

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statement of Operations and Changes in Net Assets
Year Ended December 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Revenue: | | | |
| Patient services, net (Note 5) | \$ 896,133 | \$ - | \$ 896,133 |
| DHHS grants (Note 6) | 493,089 | - | 493,089 |
| Contract services - County of Los Angeles Department of Health | 253,771 | - | 253,771 |
| Donated services (Note 8) | 233,120 | - | 233,120 |
| Contributions | 650,950 | 30,449 | 681,399 |
| Other | 26,740 | - | 26,740 |
| Total revenue | 2,553,803 | 30,449 | 2,584,252 |
| Expenses: | | | |
| Salaries and benefits | 1,458,788 | - | 1,458,788 |
| Other than personnel services | 1,052,292 | - | 1,052,292 |
| Total expenses | 2,511,080 | - | 2,511,080 |
| Income prior to depreciation and amortization | 42,723 | 30,449 | 73,172 |
| Depreciation and Amortization | 57,306 | - | 57,306 |
| Operating (loss) income | (14,583) | 30,449 | 15,866 |
| Nonoperating Revenue - donated equipment | 36,167 | - | 36,167 |
| Increase in net assets | 21,584 | 30,449 | 52,033 |
| Net Assets: | | | |
| Beginning | 1,125,389 | 203,824 | 1,329,213 |
| Ending | <u>\$ 1,146,973</u> | <u>\$ 234,273</u> | <u>\$ 1,381,246</u> |

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statement of Functional Expenses
Year Ended December 31, 2009

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fund-Raising</u> | <u>Total</u> |
|--------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|-----------------------------------|
| Salaries and wages | \$ 905,313 | \$ 240,571 | \$ 50,200 | \$ 1,196,084 |
| Fringe benefits | 206,499 | 45,128 | 11,077 | 262,704 |
| Consultants and contractual services | 152,092 | 56,036 | 89,868 | 297,996 |
| Professional fees | 65,510 | 16,340 | 6,266 | 88,116 |
| Consumable supplies | 147,199 | 9,532 | 3,152 | 159,883 |
| Space costs | 24,811 | 13,659 | 1,725 | 40,195 |
| Insurance | 13,965 | 1,411 | 518 | 15,894 |
| Repairs and maintenance | 65,779 | 31,595 | 3,980 | 101,354 |
| Telephone | 11,845 | 9,463 | 889 | 22,197 |
| Travel, conferences and meetings | 3,915 | 23,149 | 610 | 27,674 |
| Dues and subscriptions | 6,853 | 7,751 | 95 | 14,699 |
| Printing, publications and postage | 2,828 | 7,951 | 8,222 | 19,001 |
| Staff development | 13,072 | 5,780 | 86 | 18,938 |
| Donated goods and services | 233,120 | - | - | 233,120 |
| Other | 1,255 | 3,423 | 8,547 | 13,225 |
| | <u>1,854,056</u> | <u>471,789</u> | <u>185,235</u> | <u>2,511,080</u> |
| Depreciation and amortization | <u>30,755</u> | <u>23,415</u> | <u>3,136</u> | <u>57,306</u> |
| Total functional expenses | <u><u>\$ 1,884,811</u></u> | <u><u>\$ 495,204</u></u> | <u><u>\$ 188,371</u></u> | <u><u>\$ 2,568,386</u></u> |

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statement of Cash Flows
Year Ended December 31, 2009

| | |
|--|--------------------------|
| Cash Flows From Operating Activities: | |
| Cash received from patient services | \$ 775,688 |
| Cash received from DHHS grants | 583,395 |
| Cash received from contract services | 253,771 |
| Cash received from other revenue | 708,139 |
| Cash paid for personnel costs | (1,346,315) |
| Cash paid for other than personnel costs | <u>(877,687)</u> |
| Net cash provided by operating activities | 96,991 |
| Cash Used in Investing Activity - purchase of property and equipment | <u>(123,780)</u> |
| Net decrease in cash | (26,789) |
| Cash: | |
| Beginning | <u>983,232</u> |
| Ending | <u><u>\$ 956,443</u></u> |
| Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities: | |
| Increase in net assets | <u>\$ 52,033</u> |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 57,306 |
| Donated property, plant and equipment | (36,167) |
| Changes in operating assets and liabilities: | |
| Decrease in contracts receivable | 90,306 |
| Increase in patient services receivable | (120,445) |
| Decrease in prepaid expenses and other | 52,733 |
| Decrease in accounts payable and accrued expenses | (39,092) |
| Increase in accrued compensation | <u>40,317</u> |
| Total adjustments | <u>44,958</u> |
| Net cash provided by operating activities | <u><u>\$ 96,991</u></u> |

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 1. Organization

University Muslim Medical Association, Inc. ("UMMA") operates a not-for-profit healthcare center in the State of California in the city of Los Angeles. 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 (the "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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

Patient accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. UMMA estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends.

Property and equipment is recorded at cost or, if donated, at fair value at date of donation. Depreciation and amortization is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for equipment. UMMA capitalizes all purchases of property and equipment in excess of \$2,500.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with 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 statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire 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.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Cash received in excess of revenue recognized is recorded as refundable advances. At December 31, 2009, UMMA has received grants and contracts from governmental entities in the aggregate amount of \$606,100 that have not been recorded in these financial statements as they have not been earned. These grants and contracts require UMMA to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at patient services revenue, net.

Donated pharmaceuticals, equipment and services are recorded at their estimated fair market value.

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Interest earned on federal funds is recorded as a payable to the Public Health Service (the "PHS") in compliance with OMB Circular A-110.

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.

On January 1, 2009, UMMA adopted the accounting standard on accounting for uncertainty in income taxes, codified in Accounting Standards Codification ("ASC") 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, UMMA 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 derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

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 the U.S. federal, state or local tax authorities for years before 2007, which is the standard statute of limitations look-back period.

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 is performed through the date the financial statements are available to be issued, which was October 13, 2010 for these financial statements.

Note 3. Patient Services Receivable, Net

Patient services receivable, net, consists of the following:

| | |
|---|-------------------|
| Medi-Cal, Medicare and other State of California programs | \$ 174,796 |
| Self-pay | 3,505 |
| | <u>178,301</u> |
| | <u>\$ 178,301</u> |

Note 4. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

| | |
|--|---------------------|
| Land | \$ 656,000 |
| Building and building improvements | 280,083 |
| Furniture and equipment | 326,111 |
| Leasehold improvements | 42,565 |
| | <u>1,304,759</u> |
| Less accumulated depreciation and amortization | 198,907 |
| | <u>1,105,852</u> |
| Construction-in-progress | 19,100 |
| | <u>\$ 1,124,952</u> |

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 4. Property and Equipment, Net (Continued)

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

On March 23, 2009, UMMA entered into an agreement with the Community Redevelopment Corporation of Los Angeles, California (CRC/LA) to receive property from CRC/LA as a conditional contribution. UMMA is required per the agreement to provide eligible services in the amount of \$800,000 and visits as defined by the agreement over a ten-year period.

Cash Flow Noncash Transactions: UMMA recorded property and a refundable advance of \$800,000 for the year ended December 31, 2009.

Note 5. Patient Services, Net

For the year ended December 31, 2009, patient services revenue consist of the following:

| | <u>Gross Revenue</u> | <u>Contractual Allowances</u> | <u>Net Patient Services Revenue</u> |
|---|--------------------------|-----------------------------------|---|
| Medi-Cal, Medicare and other State of California programs | \$ 2,650,935 | \$ 1,759,630 | \$ 891,305 |
| Self-pay | 18,593 | 13,765 | 4,828 |
| | <u>\$ 2,669,528</u> | <u>\$ 1,773,395</u> | <u>\$ 896,133</u> |

Note 6. DHHS Grants

For the year ended December 31, 2009, UMMA recognized the following DHHS grants:

| <u>Grant Number</u> | <u>Grant Period</u> | <u>Total Grant</u> | <u>Revenue Recognized</u> |
|---------------------|-----------------------|------------------------|-------------------------------|
| 6 H80CS10609-01-02 | 08/01/2008-04/30/2009 | \$ 347,291 | \$ 154,291 |
| 6 H80CS10609-02-01 | 05/01/2009-04/30/2010 | 485,472 | 317,675 |
| 6 H8BCS11832-01-01 | 03/27/2009-03/26/2011 | 134,595 | 21,122 |
| 6H8BCS13586-01-02 | 06/28/2009-06/28/2011 | 324,830 | - |
| | | | <u>\$ 493,088</u> |

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

| | |
|------------------------------|-------------------|
| Zakat | \$ 69,037 |
| Pillars of Tolerance Project | 33,826 |
| California Wellness program | <u>131,410</u> |
| | <u>\$ 234,273</u> |

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 8. Donated Equipment and Services

For the year ended December 31, 2009, donated equipment and services consist of the following:

| | |
|--------------------------------|--------------------------|
| Pharmaceuticals | \$ 209,268 |
| Donated equipment and services | <u>60,019 *</u> |
| | <u><u>\$ 269,287</u></u> |

*Includes nonoperating donated equipment of \$36,167

Note 9. Commitments and Contingencies

UMMA contracted with various funding agencies to perform certain healthcare services and receives Medi-Cal and Public Private Partnership program of Los Angeles County ("PPP") revenue from the state and federal governments. Reimbursements received under these contracts and payments from Medi-Cal and Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, UMMA could be held responsible for refunding the agencies for 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.

UMMA leases space under a month-to-month operating lease at 711 Florence Avenue, Los Angeles, California. Rent expense for the year ended December 31, 2009 amounted to \$11,986. There are no future lease commitments.