

University Muslim Medical Association, Inc.

Financial and Compliance Report
December 31, 2010

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Independent Auditor's Report

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, 2010 and 2009, 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 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, 2010 and 2009, 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 report dated September 28, 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 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2010 is presented for purposes of additional analysis as required by OMB 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Los Angeles, CA
September 28, 2011

University Muslim Medical Association, Inc.

Balance Sheets

December 31, 2010 and 2009

Assets	2010	2009
Current Assets		
Cash	\$ 934,144	\$ 956,443
Patient services receivable, net (Note 5)	83,928	178,301
DHHS grants receivable	29,248	-
Other grants and contributions receivable (Note 6)	139,320	4,902
Prepaid expenses and other current assets	38,599	37,033
Total current assets	1,225,239	1,176,679
Property and Equipment		
Land	656,000	656,000
Building and building improvements	280,083	280,083
Furniture and equipment (Note 8)	350,338	326,111
Leasehold improvements	42,565	42,565
Construction-in-progress	364,516	19,100
	1,693,502	1,323,859
Less accumulated depreciation and amortization	259,688	198,907
Net property and equipment	1,433,814	1,124,952
	\$ 2,659,053	\$ 2,301,631
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 68,969	\$ 8,357
Accrued compensation	135,193	112,028
Refundable advance (Note 8)	713,275	800,000
Total current liabilities	917,437	920,385
Commitments and Contingencies (Notes 11 and 12)		
Net Assets		
Unrestricted	1,300,866	1,146,973
Temporarily restricted (Note 7)	440,750	234,273
Total net assets	1,741,616	1,381,246
Total liabilities and net assets	\$ 2,659,053	\$ 2,301,631

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statements of Operations and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted revenue:		
Patient services, net	\$ 857,660	\$ 896,133
DHHS grants	582,060	493,089
Contract services—County of Los Angeles Department of Health	259,539	253,771
Foundation grants and contributions	582,988	447,126
Donated services and gift-in-kind	177,118	233,120
Other	15,317	26,740
Net assets released from restriction	220,460	-
Total unrestricted revenue	2,695,142	2,349,979
Expenses:		
Salaries and wages	1,446,831	1,196,084
Consultants and contractual services	428,622	297,996
Fringe benefits	261,828	262,704
Donated goods and services	177,118	233,120
Consumable supplies	145,933	159,883
Repairs and maintenance	90,714	101,354
Other	65,928	13,225
Professional fees	63,747	88,116
Depreciation	60,780	57,306
Space costs	50,759	40,195
Telephone	45,894	22,197
Staff development	32,719	18,938
Printing, publications and postage	23,339	19,001
Insurance	39,708	15,894
Dues and subscriptions	19,033	14,699
Travel, conferences and meetings	15,421	27,674
Total expenses	2,968,374	2,568,386
Excess of expenses over revenues and support	(273,232)	(218,407)
Nonoperating revenue—donated equipment (Note 8)	86,725	36,167
Grants for capital expenditures	340,400	-
Increase in unrestricted net assets	153,893	(182,240)
Temporarily restricted net assets:		
Foundation grants and contributions for a specific program	426,937	234,273
Net assets released from restrictions	(220,460)	-
Increase in temporarily restricted net assets	206,477	234,273
Increase in net assets	360,370	52,033
Net Assets, beginning of year	1,381,246	1,329,213
Net Assets, end of year	\$ 1,741,616	\$ 1,381,246

See Notes to Financial Statements.

University Muslim Medical Association, Inc.

Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase in net assets	\$ 360,370	\$ 52,033
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	60,781	57,306
Donated property, plant and equipment	(86,725)	(36,167)
Contributions for capital expenditures	(340,400)	-
Changes in operating assets and liabilities:		
(Increase) decrease in patient services receivable	94,373	(120,445)
Increase in DHHS receivable	(29,248)	-
(Increase) decrease in grants and contributions receivable	(134,418)	90,306
(Increase) decrease in prepaid expenses and other	(1,566)	52,733
Increase (decrease) in accounts payable and accrued expenses	60,612	(39,092)
Increase in accrued compensation	23,165	40,317
Net cash provided by operating activities	6,944	96,991
Cash Flows From Investing Activities		
Purchase of property and equipment	(369,643)	(123,780)
Net cash used in investing activities	(369,643)	(123,780)
Cash Flows From Financing Activities		
Cash received from grants for capital expenditures	340,400	-
Net cash provided by financing activities	340,400	-
Net decrease in cash	(22,299)	(26,789)
Cash		
Beginning	956,443	983,232
Ending	\$ 934,144	\$ 956,443
Supplemental Disclosure of Noncash Financing Activity		
Capital acquisitions funded through accounts payable	\$ 1,069	\$ -

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 (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 statement of operations 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, 2010 and 2009.

Results of operations: The statement of operations and changes in net assets includes the excess 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 which 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 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 of net patient services 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.

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Patient services receivable: The collection of receivables from third-party payors (consisting of Medi-Cal, LA County PPP, contracts and managed care contracts) 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 or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under UMMA's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied 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. The allowance for doubtful accounts was \$0 at December 31, 2010 and 2009.

Grants receivable: Grants receivable reflect amounts earned but not yet collected which UMMA expects to realize.

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 3 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 \$500.

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 administering 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 Medicare payment arrangements. Laws and regulations governing the Medi-Cal and Medicare 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 with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue.

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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, 2010, UMMA has received grants from governmental entities in the aggregate amount of \$607,156 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 revenues are recognized as revenue when 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. Bequests are recognized when the probate court declares the will valid. 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 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.

On January 1, 2009, UMMA adopted the accounting standard on accounting for uncertainty in income taxes, 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 percent 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 account 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 U.S. federal, state or local authorities for years before 2007, which is the standard statute of limitations look-back period.

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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, 2011, the date the financial statements were available to be issued.

Note 3. Net Patient Services Revenue

UMMA has agreements with third-party payors which 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, 2010 and 2009, LA County PPP contract represented approximately 36 percent and 43 percent, and managed care represented 47 percent and 56 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 year ended December 31, 2010, UMMA recognized approximately 17 percent 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 Medicare 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. Because 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, 2010 and 2009 amounted to \$83,144 and \$13,765, respectively.

University Muslim Medical Association, Inc.

Notes to Financial Statements

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, which do not reflect patient visit mix, are as follows:

	Net Receivables	
	2010	2009
Medi-Cal	2.0%	39.0%
Managed Care	26.0%	11.0%
LA County PPP	70.0%	48.0%
Self-pay	2.0%	2.0%
	<u>100%</u>	<u>100%</u>

Note 6. Other Grants and Contributions Receivable

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

	2010	2009
California Community Foundation	\$ 93,750	\$ -
CCCEP—Infrastructure Capital Expansion	15,570	-
Other	30,000	4,902
	<u>\$ 139,320</u>	<u>\$ 4,902</u>

Note 7. Temporarily Restricted Net Assets

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

	Balance December 31, 2009	Net Asset Additions	Net Assets Released	Balance December 31, 2010
Primary & Preventive Care	\$ -	\$ 12,000	\$ -	\$ 12,000
Promoting Health in South Los Angeles	-	155,000	37,550	117,450
Healthcare Services 0-18 years	-	25,000	12,500	12,500
Full-Time Assistant Director	-	100,000	39,000	61,000
Facilities Expansion	-	110,000	-	110,000
Zakat	69,037	24,937	-	93,974
Pillars of Tolerance Project	33,826	-	-	33,826
California Wellness Program	131,410	-	131,410	-
	<u>\$ 234,273</u>	<u>\$ 426,937</u>	<u>\$ 220,460</u>	<u>\$ 440,750</u>

University Muslim Medical Association, Inc.**Notes to Financial Statements**

Note 8. Donated Equipment and Services

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

	2010	2009
In-kind contributions:		
Pharmaceuticals	\$ 166,978	\$ 209,268
Donated property	86,725 *	36,137
Donated services	10,140	23,882
	<u>\$ 263,843</u>	<u>\$ 269,287</u>

* 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 9. Functional Expenses

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

	2010	2009
Program services	\$ 1,890,909	\$ 1,884,811
General and administrative	765,375	495,204
Fund-raising	312,090	188,371
	<u>\$ 2,968,374</u>	<u>\$ 2,568,386</u>

Note 10. Contracts, Foundation Grants and Contributions

For the years ended December 30, UMMA recognized the following contracts and other grants:

	2010	2009
Contributions	\$ 500,237	\$ 235,068
LA County—Strategic Initiative Program & Clinic Capacity Expansion Project	259,539	253,771
LA Care Health Plan	170,000	99,771
California Community Foundation	162,500	142,500
Islamic Relief	30,000	-
Tools for Quality	-	28,440
Zakat	24,937	30,449
Other	7,927	19,697
Miscellaneous foundation gifts and grants	29,924	75,474
Miscellaneous corporate gifts and grants	84,400	50,000
	<u>\$ 1,269,464</u>	<u>\$ 935,170</u>

University Muslim Medical Association, Inc.

Notes to Financial Statements

Note 11. Operating Lease

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 31,200
2012	31,200
2013	31,200
2014	31,200
2015	10,400
	<u>\$ 135,200</u>

Aggregate space costs for the years ended December 31, 2010 and 2009 amounted to \$50,579 and \$40,195, respectively, including utilities and other common charges.

Note 12. Commitments and Contingencies

Contracted services: UMMA contracts with other 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 under Medi-Cal and Medicare are subject to audit by federal and other 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.

Construction commitments: UMMA has entered into contracts for construction totaling \$465,240, of which \$155,413 remains as of December 31, 2010.

Note 13. 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 health care 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 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 health care 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

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct programs:			
Consolidated Health Centers	93.224	5 H80CS10609-03-00	\$ 491,441
ARRA—Capital Improvement Program	93.703	1 C81CS13586-01-00	324,830
ARRA—Increase Services to Health Centers	93.703	1 H8BCS11832-01-00	90,619
Total Expenditures of Federal Awards			<u>\$ 906,890</u>

See Note to Schedule of Expenditures of Federal Awards.

CFDA = Catalog of Federal Domestic Assistance

University Muslim Medical Association, Inc.

Notes to Schedule of Expenditures of Federal Awards

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 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, 2010.



**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. as of and for the year ended December 31, 2010, and have issued our report thereon dated September 28, 2011. 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

Management of University Muslim Medical Association, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered University Muslim Medical Association, Inc.'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 University Muslim Medical Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of University Muslim Medical Association, Inc.'s internal control over financial reporting.

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.

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 and 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, 10-01 Temporarily Restricted Grants and Contributions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Muslim Medical Association, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 10-02 Regulatory Reporting.

We noted certain matters that we reported to management of University Muslim Medical Association, Inc. in a separate letter dated September 28, 2011.

University Muslim Medical Association, Inc.'s response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit University Muslim Medical Association, Inc.'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, Board of Directors and others within the entity, and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Los Angeles, CA
September 28, 2011



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. with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on University Muslim Medical Association, Inc.'s major federal programs for the year ended December 31, 2010. University Muslim Medical Association, Inc.'s major federal programs are 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 each of its major federal programs is the responsibility of University Muslim Medical Association, Inc.'s management. Our responsibility is to express an opinion on University Muslim Medical Association, Inc.'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 University Muslim Medical Association, Inc.'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 University Muslim Medical Association, Inc.'s compliance with those requirements.

In our opinion, University Muslim Medical Association, Inc. complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-02, Regulatory Reporting.

Internal Control Over Compliance

Management of University Muslim Medical Association, Inc. 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 University Muslim Medical Association, Inc.'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 University Muslim Medical Association, Inc.'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.

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.

University Muslim Medical Association, Inc.'s response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit University Muslim Medical Association, Inc.'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, Board of Directors, others within the entity, 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 & Pullen, LLP

Los Angeles, CA
September 28, 2011

University Muslim Medical Association, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2010**

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? Yes X 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? Yes X 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
93.703	Health Center Integrated Services Development Initiative

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

Auditee qualified as low-risk auditee? Yes X No

University Muslim Medical Association, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2010**

Section II—Financial Statement Findings

10-01 Temporarily Restricted Grants and Contributions

Criteria: The financial statements must be prepared in accordance with accounting principles generally accepted in the United States of America.

Condition: Net assets and contributions were not reported in accordance with Accounting Standards Code (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 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.

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 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. 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 vs. \$121,368).

Questioned Costs: None

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

University Muslim Medical Association, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2010**

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 adequately supported by pertinent records.

University Muslim Medical Association, Inc.

**Status of Prior Audit Findings
Year Ended December 31, 2010**

There are no prior year audit findings.