

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS

DECEMBER 31, 2014 AND 2013



MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 16
SINGLE AUDIT REPORTS	17
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 <i>Government Auditing Standards</i>	18 - 19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	20 - 21
SUPPLEMENTAL INFORMATION	22
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2014	23
Notes to Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2014	24
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2014	25 - 26



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Miami Beach Community Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Miami Beach Community Health Center, Inc. (the "Center"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miami Beach Community Health Center, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Monison, Brown, Ariz & Fana

Miami, Florida
April 6, 2015

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,424,214	\$ 358,449
Patient services receivable, net of allowance for uncollectible accounts of approximately \$842,000 and \$441,000, at December 31, 2014 and 2013, respectively	1,481,039	1,288,850
Grants and contracts receivable	1,483,694	1,532,934
Inventory	372,783	255,661
Investment, at cost	147,120	147,120
Other receivables	-	43,095
Prepaid expenses	396,871	213,353
TOTAL CURRENT ASSETS	5,305,721	3,839,462
PROPERTY AND EQUIPMENT, NET	2,409,267	2,368,000
SECURITY DEPOSITS	116,796	110,891
TOTAL ASSETS	\$ 7,831,784	\$ 6,318,353
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,446,617	\$ 3,418,375
Line of credit	-	23,057
Current maturities of notes payable	72,903	65,267
Accrued compensation	753,710	532,389
TOTAL CURRENT LIABILITIES	3,273,230	4,039,088
LONG TERM ACCRUED COMPENSATION	629,706	836,283
OTHER LIABILITIES	22,000	39,000
NOTES PAYABLE, LESS CURRENT MATURITIES	613,437	693,238
TOTAL LIABILITIES	4,538,373	5,607,609
COMMITMENTS AND CONTINGENCIES (NOTES 2 AND 15)		
NET ASSETS		
Unrestricted	3,293,411	710,744
TOTAL LIABILITIES AND NET ASSETS	\$ 7,831,784	\$ 6,318,353

The accompanying notes are an integral part of these financial statements.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

	2014	2013
REVENUE:		
Patient services, net of contractual allowances and discounts	\$ 25,518,188	\$ 21,384,480
Provision for bad debts and other adjustments	(907,827)	(480,521)
Net patient service revenue	24,610,361	20,903,959
Department of Health and Human Services Direct Grants	5,844,488	4,572,411
Miami-Dade County Contract	5,941,620	5,582,751
Health Council of South Florida Contract	845,739	1,110,946
Contract services	2,401,706	2,063,838
In-kind contributions	4,641,563	4,612,783
Other	365,281	92,649
TOTAL REVENUE	44,650,758	38,939,337
EXPENSES:		
Salaries and benefits	17,858,630	16,791,489
Other than personnel services	9,755,347	8,822,732
Pharmaceuticals and supplies	8,327,805	7,529,789
In-kind expenses	4,641,563	4,612,783
Facilities	939,798	784,598
Interest	107,300	106,571
TOTAL EXPENSES	41,630,443	38,647,962
OPERATING INCOME BEFORE OTHER (EXPENSES) INCOME	3,020,315	291,375
OTHER (EXPENSES) INCOME:		
LEGAL SETTLEMENT (NOTE 2)	-	1,300,000
UNAUTHORIZED EXPENDITURES AND RELATED COSTS (NOTE 2)	-	(707,194)
DEPRECIATION AND AMORTIZATION	(437,648)	(509,512)
TOTAL OTHER (EXPENSES) INCOME	(437,648)	83,294
CHANGE IN NET ASSETS	2,582,667	374,669
NET ASSETS, BEGINNING OF YEAR	710,744	336,075
NET ASSETS, END OF YEAR	\$ 3,293,411	\$ 710,744

The accompanying notes are an integral part of these financial statements.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31,

	2014			2013		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	\$ 11,807,661	\$ 3,737,784	\$ 15,545,445	\$ 11,115,537	\$ 3,591,175	\$ 14,706,712
Fringe benefits	1,756,997	556,188	2,313,185	1,575,703	509,074	2,084,777
Consultants and contractual services	7,434,160	151,718	7,585,878	6,963,204	143,235	7,106,439
Professional fees	-	310,850	310,850	-	63,389	63,389
Pharmaceuticals and supplies	8,151,636	176,169	8,327,805	7,387,546	142,243	7,529,789
Facilities	742,440	197,358	939,798	619,832	164,766	784,598
Insurance	172,382	114,921	287,303	160,898	107,265	268,163
Repairs and maintenance	331,300	88,067	419,367	271,675	72,218	343,893
Equipment rental	93,460	89,794	183,254	72,745	69,893	142,638
Telephone	110,714	73,810	184,524	105,849	70,566	176,415
Travel, conferences and meetings	46,296	37,879	84,175	31,398	25,689	57,087
Staff training	15,043	1,671	16,714	57,730	6,414	64,144
Dues and subscriptions	58,091	21,485	79,576	31,245	11,556	42,801
Printing, publications and postage	87,349	23,221	110,570	84,470	22,454	106,924
Interest	80,475	26,825	107,300	79,928	26,643	106,571
In-kind expenses	4,391,563	250,000	4,641,563	4,362,783	250,000	4,612,783
Other	394,509	98,627	493,136	363,882	86,957	450,839
	35,674,076	5,956,367	41,630,443	33,284,425	5,363,537	38,647,962
Unauthorized expenditures and related costs	-	-	-	-	707,194	707,194
Depreciation and amortization	345,742	91,906	437,648	402,514	106,998	509,512
Total	\$ 36,019,818	\$ 6,048,273	\$ 42,068,091	\$ 33,686,939	\$ 6,177,729	\$ 39,864,668

The accompanying notes are an integral part of these financial statements.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ 2,582,667</u>	<u>\$ 374,669</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	437,648	509,512
Provision for bad debts and other adjustments	907,827	480,521
Changes in operating assets and liabilities:		
Patient services receivable	(1,100,016)	(480,589)
Grants and contracts receivable	49,240	220,620
Prepaid expenses, other receivables and security deposits	(146,328)	(35,562)
Inventory	(117,122)	149,334
Accounts payable and accrued expenses	(971,758)	(256,425)
Grants payable	-	(580,166)
Accrued compensation	14,744	23,816
Other liabilities	(17,000)	(132,800)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,639,902</u>	<u>272,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(478,915)</u>	<u>(261,473)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(478,915)</u>	<u>(261,473)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit, net of borrowings	(23,057)	(521,368)
Repayments of long-term debt	<u>(72,165)</u>	<u>(74,380)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(95,222)</u>	<u>(595,748)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,065,765	(584,291)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>358,449</u>	<u>942,740</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,424,214</u>	<u>\$ 358,449</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 107,300</u>	<u>\$ 106,571</u>

The accompanying notes are an integral part of these financial statements.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

1. ORGANIZATION

Miami Beach Community Health Center, Inc. (the "Center") is a not-for-profit, consumer-directed healthcare corporation serving the medically underserved population in Miami Beach, Florida. The U.S. Department of Health and Human Services ("DHHS") provides substantial direct and indirect support to the Center. The Center is obligated under the terms of the DHHS grant to comply with specified conditions and program requirements set forth by the grantor.

2. UNAUTHORIZED EXPENDITURES

In 2012, current management of the Center became aware of an embezzlement of funds by the former CEO including unauthorized compensation to the former CEO. This embezzlement and unauthorized compensation is believed to have occurred from 2007 through 2012. Management notified various granting and regulatory agencies of the embezzlement and those federal, state and local authorities conducted investigations concerning this matter. As of the date of this report, management believes these investigations have concluded.

In connection with the embezzlement, the Center obtained from its previous auditors a settlement of \$1,300,000, which is included in the caption "Legal settlement" in the accompanying statements of activities for the year ended December 31, 2013. Related to the settlement, the Center incurred legal fees of approximately \$429,000, which is included within the caption "Unauthorized expenditures and related costs" in the accompanying statements of activities for the year ended December 31, 2013. The Center has not incurred any additional expenses or revenue recoveries in 2014 related to the embezzlement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation

Net assets and revenues, gains and losses are classified into three classes of net assets based on the existence or absence of donor-imposed restrictions. The three classes of net asset categories are as follows:

Unrestricted – Net assets which are free of donor-imposed restrictions; all revenues, gains, and losses that are not changes in permanently or temporarily restricted net assets.

Temporarily Restricted – Net assets where the use by the Center is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Center pursuant to those stipulations. There were no temporarily restricted net assets as of December 31, 2014 and 2013.

Permanently Restricted – Net assets where the use by the Center is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Center. There were no permanently restricted net assets as of December 31, 2014 and 2013.

Management Estimates

In accordance with U.S. GAAP, the accompanying financial statements include the use of estimates made by management. Actual results may differ from these estimates and management may change the estimates as a result of new information and changes in circumstances. Such estimates include, but are not limited to, impact of any liabilities resulting from the unauthorized expenditures as described in NOTE 2, the allowance for uncollectible patient receivables, estimated useful lives of property and equipment and net patient service revenue.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash, patient services receivables and grants and contracts receivable. At times during the year, the Center's cash balances may exceed federally insured limits. The Center places its cash with several financial institutions and has not experienced losses in any such accounts.

Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Center regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all grants and contracts as collectible. Patient service receivables are due from patients in and around South Florida. Risk is limited due to the large number of individually insignificant accounts which comprise the Center's customer base, thus spreading the default risk. No single customer represents greater than 10% of total patient service receivables.

Significant Vendors

The Center is dependent upon third-party service providers and suppliers for all of its pharmaceuticals and lab service. The Center is dependent on the ability of its vendors to provide products and services on a timely basis and on favorable pricing terms. The loss of certain principal vendors or a significant reduction in product and/or service availability could have a material effect on the Center. The Center believes that its relationships with its vendors are satisfactory.

One company accounted for approximately \$7,500,000 and \$6,500,000 of the total pharmaceutical purchases for the years ending December 31, 2014 and 2013, respectively, and had an accounts payable balance outstanding of approximately \$1,067,000 and \$1,541,000 at December 31, 2014 and 2013, respectively. One company accounted for approximately \$1,600,000 and \$1,674,000 of the total laboratory services purchased for the years ending December 31, 2014 and 2013, respectively, and had an accounts payable balance outstanding of approximately \$224,000 and \$410,000 at December 31, 2014 and 2013, respectively.

Significant Grantors

The two largest grantors accounted for 65% of grants receivable at December 31, 2014 and for 26% of total revenues for the year then ended. The two largest grantors accounted for 75% of grants receivable at December 31, 2013 and 26% of total revenues for the year then ended. The loss of these funding sources could have an adverse impact on the Center.

Investment, At Cost

The Center has elected to carry its investments at cost. As of December 31, 2014 and 2013, the fair values of the investments are not estimated as the investments are restricted from sale to the general public per the operating agreement. Management believes there are no events or changes in circumstances that may have a significant adverse effect on the value of the investment.

Net Patient Service Revenue and Patient Receivables

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others, including retroactive adjustments under payment agreements with third-party payors. The Center has agreements with third-party payors that generally provide for payments to the Center at amounts different from its established rates. For uninsured patients, the Center recognizes revenues based on established rates, subject to certain discounts as determined by the Center which are recorded as a deduction to patient service revenue. An estimated provision for uncollectible accounts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The Center reports patient service revenue prior to assessing the patient's ability to pay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue and Patient Receivables (Continued)

The Center is paid a prospectively determined rate for the majority of care and services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare payments are received on a prospective determined rate with final settlement determined after submission of annual cost reports. Medicaid payments are received on regulatory established rates which are adjusted each year for inflation. Management believes net patient service revenue has been recorded at estimated realizable value including estimates for retroactive adjustments, if any, resulting from regulatory matters or other adjustments under payment agreements. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at patient services, net.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action and in the normal course of business, the Center is subject to contractual reviews and audits. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Center believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Charity Care

The Center provides care to patients who do not have the ability to pay and who qualify for charity services pursuant to established policies of the Center. Charity services are defined as those for which patients have the obligation and willingness to pay but do not have the ability to do so. The Center does not include charity care in net patient service revenue.

Grants and Contracts

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 grant or contract restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the year in which the assets are acquired. Cash received from grants and contracts in excess of revenue is recorded as a liability.

Public Support

All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Center recognizes the fair value of contributed services received if such services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. In-kind contributions are comprised of donated facilities and pharmaceuticals.

Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts with an original maturity of three months or less which are used in daily operations.

Inventory

Inventory consists of pharmaceuticals for resale. Inventory is stated at the lower of cost or net realizable value on primarily a specific identification basis. Management performs periodic assessments to determine the existence of obsolete, slow moving and unsalable inventories. At December 31, 2014 and 2013, there was write down for obsolete inventory.

Prepaid Expenses

Prepaid expenses and other assets primarily consist of unamortized insurance premiums and other deferred charges.

Property and Equipment, Net

Property and equipment are recorded at cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 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. Repairs and maintenance costs are expensed as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are credited or charged to operations. The Center capitalizes all purchases of property and equipment in excess of \$500.

Impairment of Long-Lived Assets

The carrying value of long-lived assets is reviewed if the facts and circumstances, such as significant declines in revenues, earnings or cash flows or material adverse changes in the business climate, indicate that they may be impaired. The Center performs its review by comparing the carrying amounts of long-lived assets to the estimated undiscounted cash flows relating to such assets. If any impairment in the value of the long-lived assets is indicated, the carrying value of the long-lived assets is adjusted to reflect such impairment based on the fair value of the impaired assets or an estimate of fair value based on discounted cash flows. No write-downs for impairment of long-lived assets were recorded in 2014 or 2013.

Functional Expenses

The cost of providing the various services and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been charged to program services or supporting services based on a combination of specific identification and allocation by management.

Tax Status

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for income taxes has been recorded.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status (Continued)

The Center recognizes and measures tax positions based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The Federal jurisdiction is the major tax jurisdiction where the Center files informational tax returns. The Center is generally no longer subject to Federal examinations by tax authorities for years before 2011.

Subsequent Events

The Center has evaluated subsequent events through April 6, 2015, which is the date the financial statements were available to be issued.

Reclassifications

Certain 2013 financial statement amounts have been reclassified to conform to the 2014 presentation.

4. PATIENT SERVICES RECEIVABLE, NET

Patient services receivable, net, consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Medicaid	\$ 1,020,552	\$ 632,296
Medicare	59,377	32,244
Other third-party payors	263,460	153,985
Self-pay	699,195	390,548
Pharmacy program	280,162	520,850
	<u>2,322,746</u>	<u>1,729,923</u>
Less allowance for doubtful accounts	841,707	441,073
Total	<u>\$ 1,481,039</u>	<u>\$ 1,288,850</u>

The Center's allowance for doubtful accounts for self pay patients was 60% and 61% at December 31, 2014 and 2013, respectively. Provision for bad debts and other adjustments totaled \$907,827 and \$480,521 for the years ended December 31, 2014 and 2013, respectively.

The Center has not changed its charity care or uninsured discount policies during the years ended December 31, 2014 or 2013. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third party payors.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

5. GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Miami-Dade County	\$ 966,674	\$ 1,093,824
Department of Health and Human Services Direct Grant	99,370	221,440
The Children's Trust	80,044	43,537
Healthy Start Coalition of Miami-Dade	60,144	66,202
Mt. Sinai	150,000	-
Other	127,462	107,931
Total	<u>\$ 1,483,694</u>	<u>\$ 1,532,934</u>

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 305,186	\$ 305,186
Building	1,214,360	1,211,700
Leasehold improvements	3,533,263	3,276,232
Furniture and fixtures	3,664,841	3,445,617
Total	8,717,650	8,238,735
Less accumulated depreciation and amortization	6,308,383	5,870,735
Total	<u>\$ 2,409,267</u>	<u>\$ 2,368,000</u>

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 totaled \$437,648 and \$509,512, respectively. The DHHS holds a financial interest in property and equipment acquired with grant funds. 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 Public Health Service ("PHS") or third parties.

7. INVESTMENT, AT COST

The Center is a member of a for-profit limited liability company, Prestige Health Choice, LLC ("PHC"). PHC commenced operations during 2007. PHC is a managed care organization that has been authorized by the State of Florida, and the majority owner is Health Choice Network, Inc. The Center has purchased an interest in PHC in order to be eligible to participate in the managed care organization. The Center's investment, at cost, in PHC amounted to \$147,120 at December 31, 2014 and 2013.

8. LINE OF CREDIT

In December 2012, the Center entered into a revolving line of credit agreement with an original maximum borrowing amount of \$1,000,000. On February 28, 2014, the maximum borrowing on the line of credit was increased to \$1,500,000. The line of credit bears interest at the prime rate plus 4.5% (7.75% at December 31, 2014 and 2013) and requires a lockbox facility. There was no balance due on the line of credit at December 31, 2014. The balance due on the line of credit at December 31, 2013 was \$23,057. The line of credit is collateralized by accounts receivable. Borrowings under the line of credit are subject to certain financial covenants. As of December 31, 2014 and 2013, the Center is in compliance with all covenants. The revolving line of credit expires December 1, 2015. Interest expense related to the revolving line of credit was approximately \$69,000 during the years ended December 31, 2014 and 2013.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

9. NOTES PAYABLE

Notes payable consists of the following at December 31:

	2014	2013
Term promissory note entered into during October 2011, payable in monthly principal and interest installments of \$5,959 through October 2016, with interest at 5%, collateralized by building and land. The Health Resources and Services Administration ("HRSA") has a subordinated Federal Interest in the property that secures the term loan. DHHS grant number CSH403083-01-03, initially awarded on April 21, 1997, was issued to provide federal funds for the Center. The funding used toward the building totaled \$1,000,000.	\$ 632,031	\$ 670,439
Equipment financing agreement entered into during October 2011, payable in monthly installments of \$2,039 through October 2016, with interest at 7.5%.	42,815	67,281
Vehicle financing agreement entered into during February 2011, payable in monthly installments of \$871 through February 2016, with interest at 6.99%.	11,494	20,785
	686,340	758,505
Less current portion	72,903	54,815
Notes payable, net of current portion	\$ 613,437	\$ 703,690

Principal payments required on the above obligations in each of the years subsequent to December 31, 2014 are as follows:

Years ending December 31,:

2015		\$ 72,903
2016		613,437
		\$ 686,340

Interest expense on notes payable for the years ended December 31, 2014 and 2013 was approximately \$38,000 and \$37,000, respectively.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

10. PATIENT SERVICES REVENUE, NET

The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for these services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts and other adjustments), consists of the following by major payor sources at December 31:

	<u>Gross Charges</u>		<u>Contractual and Charitable Allowances</u>		<u>Net Revenue</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Medicaid	\$ 11,605,034	\$ 9,149,911	\$ 5,375,486	\$ 3,505,879	\$ 6,229,548	\$ 5,644,032
Medicare	1,091,744	995,174	386,679	281,141	705,065	714,033
Other third-party payors	5,290,893	3,522,325	3,524,251	2,988,102	1,766,642	534,223
Self-pay	10,765,015	9,932,751	6,420,721	5,840,967	4,344,294	4,091,784
	<u>\$ 28,752,686</u>	<u>\$ 23,600,161</u>	<u>\$ 15,707,137</u>	<u>\$ 12,616,089</u>	13,045,549	10,984,072
Pharmacy					12,472,639	10,400,408
					<u>\$ 25,518,188</u>	<u>\$ 21,384,480</u>

11. CONTRACT SERVICES REVENUE

Contract services revenue consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
The Children's Trust	\$ 528,977	\$ 490,689
State of Florida Department of Health	439,100	437,000
Agency for Health Care Administration	315,385	179,939
Healthy Start Coalition of Miami-Dade, Inc.	266,713	249,632
Other	264,035	189,265
Health Foundation of South Florida, Inc.	161,396	-
Mount Sinai	150,000	-
Medicare Electronic Health Records Incentive	127,500	-
Larkin Community Hospital	100,000	100,000
Medical education program	40,600	195,967
Clinical trials	8,000	49,686
City of Miami Beach	-	171,660
Total	<u>\$ 2,401,706</u>	<u>\$ 2,063,838</u>

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

12. IN-KIND CONTRIBUTIONS

In-kind contributions are recognized in the accompanying financial statements based on their fair value at the time of donation. A total of six and five companies provided in-kind pharmaceuticals during the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, in-kind contributions consisted of the following:

	<u>2014</u>	<u>2013</u>
Rent	\$ 675,000	\$ 675,000
Pharmaceuticals	<u>3,966,563</u>	<u>3,937,783</u>
Total	<u>\$ 4,641,563</u>	<u>\$ 4,612,783</u>

13. RETIREMENT PLAN

The Center maintains a defined contribution 401(k) safe harbor plan covering substantially all employees who meet certain eligibility requirements. Employees become eligible to participate after one year of employment and may then elect to contribute to the plan up to 100% of their pre-tax compensation subject to certain limitations. The Center is required to match 100% of a participating employee's contributions up to 3% of the employee's pay and 50% of the participating employee's contributions greater than 3% but not over 5% of the employee's pay. The Center may also make discretionary contributions to the plan at the option of the Center's Board of Directors. Participants are immediately vested in their contributions plus actual earnings thereon, and in the Center's qualified matching contributions and qualified discretionary contributions. Vesting in the Center's matching and discretionary contributions is based on years of continuous service; a participating employee becomes 100% vested in such contributions after six years of credited service. For the years ended December 31, 2014 and 2013, the Center's retirement plan contribution amounted to approximately \$299,000 and \$250,228, respectively.

14. RELATED PARTY TRANSACTIONS

A former employee of the Center has a financial interest in a company that performs construction and maintenance services for the Center. Total payments to this company were \$1,157,965 and \$844,195 during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, there is a balance due to this company of \$732 and \$77,148, respectively. There is an agreement between the company and the Center for monthly maintenance services of approximately \$67,000 for twelve months effective June 27, 2014. The employee was terminated in 2012. The Center believes the terms of agreement are comparable to other third party service providers.

The former Senior Executive Vice President of Medical Education of the Center has a 100% ownership interest in three companies that administered the Center's medical education program. For the year ended December 31, 2013, total payments to these companies were \$108,045. There were no amounts outstanding to these companies as of December 31, 2013. The foreign medical student education program was discontinued in February 2013.

15. COMMITMENTS AND CONTINGENCIES

Medical Malpractice

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-Supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases

In February 2007, the Center entered into a 30-year lease agreement, with another 20-year option to extend the lease, with Miami-Dade County for an annual base rent of \$1 to be paid annually.

The Center leases space under various operating leases with escalating rent payments of 3% per annum, expiring February 28, 2022. Rent expense is recorded straight-line over the life of the lease term. Rent expense is deferred and amortized over the life of the lease. The deferred lease liability is included in the statements of financial position in the caption "deferred revenue and other liabilities."

The Center also leases office equipment under operating leases expiring in 2016 and minimum monthly lease payments total approximately \$7,000. The Center leases a parking lot with minimum monthly lease payments of \$7,000. In addition to the in-kind rent of \$675,000, rent expense for the years ended December 31, 2014 and 2013 approximated \$811,000 and \$708,000, respectively. Future minimum lease payments under these leases are as follows:

Years ending December 31,:

2015	\$ 906,000
2016	809,000
2017	802,000
2018	828,000
2019	855,000
Thereafter	<u>3,893,000</u>
Total	<u>\$ 8,093,000</u>

Litigation

The Center may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Center's financial position or results of operations.

SINGLE AUDIT REPORTS

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 of
Miami Beach Community Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Miami Beach Community Health Center, Inc. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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*.

To the Board of Directors of
Miami Beach Community Health Center, Inc.
Page Two

Purpose of this Report

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

Monison, Brown, Aigiz & Tana

Miami, Florida
April 6, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Miami Beach Community Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Miami Beach Community Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

To the Board of Directors of
Miami Beach Community Health Center, Inc.
Page Two

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Monison, Brown, Aziz & Fana

Miami, Florida
April 6, 2015

SUPPLEMENTAL INFORMATION

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Contract/ Grant Number	Expenditures
U.S. Department of Health and Human Services:			
Consolidated Health Centers Cluster:			
Health Center Program	93.224	H80CS00182	\$ 1,761,113
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	H80CS00182	<u>3,528,132</u>
Subtotal Consolidated Health Centers Cluster			5,289,245
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00103	555,243
Passed through Miami-Dade County: HIV Emergency Relief Project Grants	93.914	R-845-12/R-1072-12	5,941,621
Passed through Health Council of South Florida, Inc.: HIV Care Formula Grants	93.917	CODHX	845,739
Passed through Healthy Start Coalition of Miami-Dade, Inc.:			
Medical Assistance Program	93.778	HSMBC1314	20,036
Maternal & Child Health Services Block Grant to the States	93.994	HSMBC1314	15,775
Medical Assistance Program	93.778	HSMBC1415	86,575
Maternal & Child Health Services Block Grant to the States	93.994	HSMBC1415	31,063
Passed through State of Florida Department of Health: HIV Prevention Activities Health Department Based	93.940	DEW 56	<u>59,050</u>
Total U.S. Department of Health and Human Services			<u>\$ 12,844,347</u>

See Notes to Schedule of Expenditures of Federal Awards.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards of Miami Beach Community Health Center, Inc. All federal awards passed through from other government agencies and nonprofit agencies are included on the accompanying schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. RECEIVABLE FROM DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Center submits requests for reimbursement to the Department of Health and Human Services on a periodic basis. At December 31, 2014, approximately \$99,000 was outstanding from the Department of Health and Human Services.

4. LIABILITY TO HEALTH COUNCIL OF SOUTH FLORIDA, INC.

The Center receives advances from Health Council of South Florida, Inc. for the AIDS Insurance Continuation Program. Advances are recorded as revenue and related expenditure when the funds are used in accordance with the agreement. Accordingly, at December 31, 2014, the Center has a liability to Health Council of South Florida, Inc. of approximately \$34,000 for the unexpended funds.

5. SUB RECIPIENTS

There were no Federal awards provided to sub recipients.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224, 93.527	Consolidated Health Centers Cluster
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 385,330

Auditee qualified as low-risk auditee? _____ Yes X No

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS

None.

PRIOR YEAR FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

CURRENT YEAR FINDINGS

None.

PRIOR YEAR FINDINGS

None.