

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS

DECEMBER 31, 2012 AND 2011



MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

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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 statement of financial position as of December 31, 2012 and 2011, 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, 2012 and 2011, 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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Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2012, the current management of the Center became aware of alleged embezzlement of funds by the former CEO including unauthorized compensation to the CEO. A significant portion of the Center's funding comes from federal, state and local agencies during the period in which this alleged embezzlement occurred. Even though management believes that none of the funds derived from these sources were involved either directly or indirectly to fund the unauthorized expenditures, the individual funding sources have the right to inspect the books and records of the Center, which various agencies have begun. These investigations are ongoing. The ultimate outcome of these investigations cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements. The impact of this issue has had a significant economic impact over the years and may further impact the continued funding of the Center's programs. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 information 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 June 6, 2013 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* and should be considered in assessing the results of our audit.

Monison, Brown, Ariz & Fana

Miami, Florida
June 6, 2013

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 942,740	\$ 624,768
Patient services receivable, net of allowance for uncollectible accounts of approximately \$462,000 and \$1,490,000, respectively	1,340,209	1,205,816
Grants and contracts receivable	1,715,222	1,659,884
Inventory	404,995	277,671
Investment held for sale	147,120	245,200
Other receivables	27,339	120,172
Prepaid expenses	180,452	129,015
TOTAL CURRENT ASSETS	4,758,077	4,262,526
Property and equipment, net	2,616,039	2,886,451
Security deposits	110,891	93,615
TOTAL ASSETS	\$ 7,485,007	\$ 7,242,592
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,695,585	\$ 2,477,625
Grants payable	580,166	-
Line of credit	544,425	-
Current maturities of notes payable	67,968	108,817
Short-term note payable	-	968,150
Accrued compensation	443,738	478,331
Deferred revenue and other liabilities	114,800	328,683
TOTAL CURRENT LIABILITIES	5,446,682	4,361,606
Long term accrued compensation	901,118	923,000
Other long-term liabilities	57,000	142,000
Notes payable, less current maturities	744,132	798,350
TOTAL LIABILITIES	7,148,932	6,224,956
COMMITMENTS AND CONTINGENCIES (NOTES 2 AND 15)		
NET ASSETS		
Unrestricted	336,075	1,017,636
TOTAL LIABILITIES AND NET ASSETS	\$ 7,485,007	\$ 7,242,592

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,

	2012	2011
REVENUE:		
Patient services, net of contractual allowances and discounts	\$ 22,681,827	\$ 18,395,862
Provision for bad debts	<u>(1,911,498)</u>	<u>(838,587)</u>
Net patient service revenue less provision for bad debts	20,770,329	17,557,275
Department of Health and Human Services Direct Grants	4,580,208	4,622,818
Contract services	13,235,550	12,049,470
In-kind contributions	1,617,907	1,479,068
Other	<u>106,833</u>	<u>97,157</u>
TOTAL REVENUE	<u>40,310,827</u>	<u>35,805,788</u>
EXPENSES:		
Salaries and benefits	17,214,104	15,688,478
Other than personnel services	12,147,386	10,251,806
Pharmaceuticals and supplies	7,285,407	5,311,070
In-kind expenses	1,617,907	1,479,068
Provision for non patient service bad debts	26,265	306,940
Facilities	696,170	795,498
Interest and other	<u>126,527</u>	<u>58,706</u>
TOTAL EXPENSES	<u>39,113,766</u>	<u>33,891,566</u>
OPERATING INCOME BEFORE OTHER INCOME (EXPENSES)	<u>1,197,061</u>	<u>1,914,222</u>
OTHER INCOME (EXPENSES):		
GAIN ON SALE OF INVESTMENT HELD FOR SALE (NOTE 7)	491,095	-
UNAUTHORIZED EXPENDITURES AND RELATED COSTS (NOTE 2)	(1,253,355)	(2,182,344)
GRANT ASSESSMENT (NOTE 16)	(580,166)	-
DEPRECIATION AND AMORTIZATION	<u>(536,196)</u>	<u>(755,280)</u>
TOTAL OTHER EXPENSES, NET	<u>(1,878,622)</u>	<u>(2,937,624)</u>
CHANGE IN NET ASSETS	(681,561)	(1,023,402)
NET ASSETS, BEGINNING OF YEAR	<u>1,017,636</u>	<u>2,041,038</u>
NET ASSETS, END OF YEAR	<u>\$ 336,075</u>	<u>\$ 1,017,636</u>

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,

	2012			2011		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	\$ 12,763,003	\$ 2,252,295	\$ 15,015,298	\$ 11,574,994	\$ 1,936,399	\$ 13,511,393
Fringe benefits	1,429,419	769,387	2,198,806	1,719,897	457,188	2,177,085
Consultants and contractual services	9,436,901	148,925	9,585,826	7,805,935	78,848	7,884,783
Professional fees	-	172,748	172,748	-	271,177	271,177
Pharmaceuticals and supplies	7,065,838	219,569	7,285,407	5,195,206	115,864	5,311,070
Facilities	549,974	146,196	696,170	621,693	173,805	795,498
Insurance	142,480	94,986	237,466	69,162	46,108	115,270
Repairs and maintenance	368,387	97,926	466,313	272,624	72,470	345,094
Equipment rental	78,939	75,844	154,783	49,836	47,881	97,717
Telephone	122,206	81,470	203,676	122,474	81,650	204,124
Travel, conferences and meetings	53,173	43,506	96,679	366,490	299,701	666,191
Staff training	56,910	6,323	63,233	42,244	11,229	53,473
Dues and subscriptions	50,496	12,962	63,458	50,216	13,348	63,564
Printing, publications and postage	98,168	35,540	133,708	80,393	21,370	101,763
Interest	77,322	49,205	126,527	46,378	12,328	58,706
Provision for bad debts	26,265	-	26,265	182,140	124,800	306,940
In-kind expenses	1,365,497	252,410	1,617,907	1,344,068	135,000	1,479,068
Other	767,743	201,753	969,496	354,434	94,216	448,650
	34,452,721	4,661,045	39,113,766	29,898,184	3,993,382	33,891,566
Unauthorized expenditures and related costs	-	1,253,355	1,253,355	-	2,182,344	2,182,344
Grant assessment	-	580,166	580,166	-	-	-
Depreciation and amortization	423,595	112,601	536,196	596,671	158,609	755,280
Total	\$ 34,876,316	\$ 6,607,167	\$ 41,483,483	\$ 30,494,855	\$ 6,334,335	\$ 36,829,190

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,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (681,561)	\$ (1,023,402)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	536,651	755,280
Gain on sale of investment held for sale	(491,095)	-
Provision for bad debts	1,937,763	1,145,527
Changes in operating assets and liabilities:		
Patient services receivable	(2,045,891)	(1,201,515)
Grants receivable	(93,869)	(1,170,529)
Prepaid expenses, other receivables and security deposits	36,386	(200,882)
Inventory	(127,324)	(110,606)
Accounts payable and accrued expenses	1,161,485	1,488,268
Grants payable	580,166	-
Deferred revenue and other liabilities	(298,883)	470,683
NET CASH PROVIDED BY OPERATING ACTIVITIES	513,828	152,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment	589,175	-
Purchases of property and equipment	(266,239)	(752,085)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	322,936	(752,085)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term note payable	-	1,202,800
Borrowings from line of credit	544,425	-
Repayments on short-term note payable	(968,150)	(234,650)
Repayments of long-term debt	(95,067)	(27,687)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(518,792)	940,463
NET INCREASE IN CASH AND CASH EQUIVALENTS	317,972	341,202
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	624,768	283,566
CASH AND CASH EQUIVALENTS, END OF YEAR	942,740	624,768
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Equipment purchased through financing	\$ -	\$ 99,454
Refinance lines of credit	\$ -	\$ 750,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 86,752	\$ 54,881

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

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 (the "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 alleged embezzlement of funds by the former CEO including unauthorized compensation to the CEO. This alleged embezzlement and unauthorized compensation is believed to have occurred from 2007 through 2012. A preliminary forensic audit report, covering the period January 1, 2007 through June 2012, reflects a loss of \$7,077,052. Of this amount, approximately \$3,925,000 relates to the period from 2007-2010, approximately \$2,182,000 relates to 2011 and approximately \$970,000 relates to 2012. The forensic audit only covered the time period described above and does not go back to previous periods. Whether this alleged embezzlement began prior to 2007 has not been determined. Management has notified various granting and regulatory agencies of the alleged embezzlement and there are ongoing investigations by federal, state and local authorities concerning this matter. As of the date of this report, management has not been provided any information concerning the results of these ongoing investigations (Note 16).

A significant portion of the Center's funding comes from grants from federal, state and local agencies during the period which this alleged embezzlement occurred. Management believes these grant funds were not used to fund the unauthorized expenditures. The unauthorized expenditures, plus professional fees, incurred as a result of this matter are included in a separate caption in the statement of activities. No information has come to management's attention with respect to claims from funding sources related to this issue. However, these funding sources have the right to inspect the books and records of the Center. Various agencies have undertaken this process and the investigations are ongoing. These reviews are at the early stage, and management believes there is a possibility these reviews could result in a claim, based upon the results of the individual funding source's independent review of this issue. It is not possible at this time to estimate the outcome of this issue as it pertains to return of federal funds. Based on the facts and circumstances known at the date of these financial statements, no amounts have been accrued related to reimbursements due to grantors or any other contingencies stemming from the alleged embezzlement (Note 16).

On a related matter, management has consulted legal counsel as to whether these unauthorized expenditures could jeopardize the Center's tax status and whether there could be any excise tax issues related to the matter. Management believes, and has been advised by its legal counsel, that any potential tax liability resulting from excessive compensation of the former CEO rests with the former CEO, and not the Center. Management does not believe that the Center's 501(c)(3) status is in jeopardy related to the alleged embezzlement, and has been advised by its counsel to this effect. Based on the facts and circumstances known at the date of these financial statements, no amounts have been accrued related to any potential excise tax liability stemming from the alleged embezzlement.

The impact of this issue has had a significant economic impact over the years and may further impact the Center as described above or impact the continued funding of its programs, as well as any possible investigations from Medicare, Medicaid and other agencies. Management believes the underlying operational foundation for the Center is solid and that the unsurpassed quality of care provided by the Center will ensure sufficient patient volumes, and therefore cash flow, to allow the Center to overcome the current temporary challenges. Management believes there is no indication of fraud involving the provision of, or billing for, any medical service including any service covered under the Center's federal, state and local grants and contracts.

Management has developed and is implementing a plan to address the financial operations on multiple fronts. Management has terminated the employment of the former CEO, CFO and other employees who may have been involved with improper payments as of the date of this report. Management has been proactive in notifying all funding agencies and enlisting their feedback and direction.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

2. UNAUTHORIZED EXPENDITURES (CONTINUED)

The funding agencies have expressed appreciation for this approach and for the quality of medical care provided by the Center, and have worked with the Center to develop mutually acceptable processes for monthly funding under the grants and contracts. Management has worked with the largest vendors to negotiate temporary extended payment terms. Management believes these actions will ensure the ongoing financial viability of the Center. Unauthorized expenditures and other related costs for the years ended December 31, are as follows:

	<u>2012</u>	<u>2011</u>
Unauthorized compensation	\$ 421,825	\$ 1,091,344
Alleged embezzled funds	543,500	1,091,000
Professional fees incurred in connection with alleged embezzlement of funds	<u>288,030</u>	<u>-</u>
Total	<u>\$ 1,253,355</u>	<u>\$ 2,182,344</u>

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, 2012 and 2011.

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, 2012 and 2011.

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.

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.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties (continued)

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 Miami Beach, 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 all of the total pharmaceutical purchases for the years ending December 31, 2012 and 2011 (approximately \$6,800,000 and \$4,831,000, respectively) and had an accounts payable balance of approximately \$1,347,000 and \$630,000 at December 31, 2012 and 2011, respectively. One company accounted for approximately \$976,000 and \$1,334,000 (or 98% for each year) of total laboratory services purchased for the years ending December 31, 2012 and 2011, respectively, and had a balance outstanding of approximately \$503,000 and \$740,000 at December 31, 2012 and 2011, respectively.

Significant Grantors

The two largest grantors accounted for 92% of grants receivable at December 31, 2012 and for 26% of total revenues for the year then ended. The two largest grantors accounted for 92% of grants receivable at December 31, 2011 and 34% of total revenues for the year then ended. The loss of these funding sources could have an adverse impact on the Center.

Investment Held for Sale

The Center has elected to carry its investments at cost. As of December 31, 2012 and 2011, the fair value of the investments are not estimated as the investments are restricted from sale to the general public as 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.

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.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue and Patient Receivables (continued)

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.

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.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Management performs periodic assessments to determine the existence of obsolete, slow moving and unsalable inventories. At December 31, 2012 and 2011, there was no allowance for obsolete inventory.

Prepaid Expenses and Other Assets

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 15 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 2012 or 2011.

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.

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 U.S. Federal jurisdiction is the major tax jurisdiction where the Center files informational tax returns. The Center is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2009.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncement

Presentation and Disclosure for Health Care Entities

In July 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which addresses presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts for certain health care entities. The update requires certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Also, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The update also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The update is effective for fiscal years beginning after December 15, 2012 and interim periods and annual periods thereafter, with early adoption permitted. The requirements related to the presentation of the provision for bad debts related to patient service revenue in the statement of operations are to be applied retrospectively for all prior periods presented. The Center elected to adopt this update effective January 1, 2012.

Subsequent Events

The Center has evaluated subsequent events through June 6, 2013, which is the date the financial statements were available to be issued.

Reclassification

Certain 2011 financial statement amounts have been reclassified to conform to the 2012 presentation.

4. PATIENT SERVICES RECEIVABLE, NET

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

	<u>2012</u>	<u>2011</u>
Medicaid	\$ 569,752	\$ 847,633
Medicare	69,673	242,077
Other third-party payors	157,783	255,143
Self-pay	366,267	896,322
Pharmacy program	638,314	454,972
	<u>1,801,789</u>	<u>2,696,147</u>
Less allowance for doubtful accounts	461,580	1,490,331
Total	<u>\$ 1,340,209</u>	<u>\$ 1,205,816</u>

The Center's allowance for doubtful accounts for self pay patients decreased from 90 percent of self-pay accounts receivable at December 31, 2011 to 69 percent of self-pay accounts receivable at December 31, 2012. In addition, the Center's self-pay write-offs increased approximately \$1,072,000 (from \$839,000 in 2011 to \$1,911,000 in 2012). These changes were the result of increased self pay revenues and accelerated write-offs of old receivables. The Center has not changed its charity care or uninsured discount policies during the years ended December 31, 2012 or 2011. 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, 2012 AND 2011

5. GRANTS AND CONTRACTS RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Miami-Dade County	\$ 976,945	\$ 1,400,680
Department of Health and Human Services Direct Grant	424,964	-
The Children's Trust	123,583	96,789
Other	189,730	162,415
Total	<u>\$ 1,715,222</u>	<u>\$ 1,659,884</u>

6. PROPERTY AND EQUIPMENT, NET

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

	<u>2012</u>	<u>2011</u>
Land	\$ 305,186	\$ 305,186
Building	1,211,700	1,211,700
Leasehold improvements	3,132,487	3,090,645
Furniture and fixtures	3,324,340	3,099,943
Total	7,973,713	7,707,474
Less accumulated depreciation and amortization	5,357,674	4,821,023
Total	<u>\$ 2,616,039</u>	<u>\$ 2,886,451</u>

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 totaled \$536,196 and \$755,280 respectively. During 2011, the Department of Health and Human Services contributed \$240,647 for the purchase of leasehold improvements. 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 HELD FOR SALE

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.

In December 2012, the Center sold 40% of its interest in PHC for \$589,175, which resulted in a gain of \$491,095, which is reflected in statement of activities under the caption "Gain on sale of investment held for sale." The Center's investment, at cost, in PHC as of December 31, 2012 and 2011 amounted to \$147,120 and \$245,200, respectively. The Center has an offer to sell the rest of its interest in Prestige Health Choice that could result in additional cash infusion.

Health Foundation of South Florida, Inc. provided the financing for the Center to purchase its membership interest. An agreement in place between the Center, PHC and the Health Foundation of South Florida, Inc. provides that a minimum of 50% of the distributions related to the investment be applied towards the outstanding note balance, which amounted to \$10,400 and \$70,400 at December 31, 2012 and 2011, respectively (Note 9).

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

8. SHORT-TERM DEBT

Non-revolving Lines of Credit

In October 2011, the Center refinanced its existing two lines of credit, totaling \$750,000, with a line of credit in the amount of \$100,000 and a fixed rate term loan in the amount of \$750,000 (See Note 9). The line of credit bears interest at the Bank's prime rate plus 3.95% (7.2% at December 31, 2011). There were no amounts outstanding on the new line of credit as of December 31, 2011. The line of credit expired in 2012.

Revolving Line of Credit

In December 2012, the Center entered into a revolving line of credit agreement, which requires a lockbox facility, in the amount of \$1,000,000. The line of credit bears interest at prime rate plus 4.5% (7.75% at December 31, 2012). The balance on the line of credit as of December 31, 2012 totaled \$544,425. Borrowings under the line of credit are subject to certain financial covenants. As of December 31, 2012, the Center is in compliance with all covenants. The revolving line of credit expires December 1, 2014.

Short-term Note Payable

In September 2011, the Center entered into a fixed rate term note with a bank collateralized by all of the assets of the Center, except for those assets which serve as collateral on other obligations. The note was due in 10 monthly installments of \$124,177, including interest at 6.5% per annum. The original principal amount totaled \$1,202,800 and the balance as of December 31, 2011 was \$968,150. The note was due August 10, 2012 and was paid in full.

9. NOTES PAYABLE

Notes payable consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Noninterest bearing note payable entered into during December 2007, payable in 24 monthly installments of \$5,000 starting November 1, 2011, collateralized by investment held for sale.	\$ 10,400	\$ 70,400
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 for a federal interest of 100%. HRSA agreed to subordinate its federal interest.	709,954	741,565
Equipment financing agreement entered into during October 2011, payable in monthly installments of \$2,039 through October 2016, with interest at 7.5%.	91,746	95,202
	<u>812,100</u>	<u>907,167</u>
Less current portion	67,968	108,817
Notes payable, net of current portion	<u>\$ 744,132</u>	<u>\$ 798,350</u>

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

9. NOTES PAYABLE (CONTINUED)

Principal payments required on the above obligations in each of the years subsequent to December 31, 2012 are as follows:

Years ending December 31,

	2013		\$ 67,968
	2014		59,261
	2015		61,041
	2016		623,830
			\$ 812,100

Interest expense for all indebtedness for the years ended December 31, 2012 and 2011 totaled \$86,752 and \$58,706, respectively.

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), consists of the following by major payor sources at December 31:

	Gross Charges		Contractual and Charitable Allowances		Net Revenue	
	2012	2011	2012	2011	2012	2011
Medicaid	\$ 8,149,282	\$ 5,220,637	\$ 2,288,707	\$ 1,578,624	\$ 5,860,575	\$ 3,642,013
Medicare	782,376	475,335	159,980	76,942	622,396	398,393
Other third-party payers	4,220,195	4,098,307	3,557,040	3,168,199	663,155	930,108
Self-pay	9,700,652	7,741,417	5,177,618	4,649,918	4,523,034	3,091,499
	\$ 22,852,505	\$ 17,535,696	\$ 11,183,345	\$ 9,473,683	11,669,160	8,062,013
Pharmacy					11,012,667	10,333,849
					\$ 22,681,827	\$ 18,395,862

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

11. CONTRACT SERVICES REVENUE

Contract services revenue consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Miami-Dade County	\$ 6,231,760	\$ 5,993,437
Medical education program	3,566,490	2,409,082
Health Council of South Florida	1,286,613	1,114,468
State of Florida Department of Health	520,065	363,410
The Children's Trust	507,778	498,857
Healthy Start Coalition of Miami-Dade, Inc.	291,883	325,284
Mount Sinai	150,000	150,000
Medicare Electronic Health Records Incentive	148,750	297,500
Clinical trials	115,552	156,253
Agency for Health Care Administration	98,886	358,936
Public Health Trust	-	164,956
Other	317,773	217,287
Total	<u>\$ 13,235,550</u>	<u>\$ 12,049,470</u>

12. IN-KIND CONTRIBUTIONS

In-kind contributions are recognized in the accompanying financial statements based on their fair value at the time of donation. For the years ended December 31, 2012 and 2011, in-kind contributions consisted of the following:

	<u>2012</u>	<u>2011</u>
Rent	\$ 675,000	\$ 675,000
Pharmaceuticals	942,907	804,068
Total	<u>\$ 1,617,907</u>	<u>\$ 1,479,068</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 year ended December 31, 2012 and 2011, the Center's retirement plan contribution amounted to \$242,189 and \$203,648, respectively.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 \$748,625 and \$937,409 during 2012 and 2011, respectively. As of December 31, 2012, there is a balance due to this company of \$63,151. There were no amounts outstanding as of December 31, 2011. There is an agreement between the company and the Center for monthly maintenance services of approximately \$63,000 for twelve months effective July 1, 2012. The employee was terminated in 2012. The Center believes the terms of agreement are comparable to other third party service providers.

From 2006 through 2013, the former CEO and the current Senior Executive Vice President of Medical Affairs and interim CEO of the Center each held a financial interest in a company that provides a web-based monitoring service over Center physicians' coding of medical services and measures and documents the standard of care provided by Center physicians. The Center understands that the former CEO retains her interest in the company. In 2013, the current interim CEO gifted his interest in the company to its President, who is the company's sole employee. The Center pays the company a fee of \$300 per month, which the Center understands is paid by the company to its President, and the Center further understands that neither the former CEO nor the current interim CEO has been compensated by the company. There were no amounts outstanding to the company as of December 31, 2012 and 2011.

The former Senior Executive Vice President of Medical Education of the Center has a 100% ownership interest in three companies that, pursuant to an agreement with the Center entered into on its behalf by the former CEO, administered the Center's medical education program, including managing and operating teaching faculty networks for the Center (Note 15). For the years ended December 31, 2012 and 2011, total payments to these two companies were \$1,968,700 and \$1,472,868, respectively. These expenses are included under the caption "consultants and contractual services" in the statements of functional expenses. There were no amounts outstanding to these two companies as of December 31, 2012 and 2011. The employee resigned in 2012, and the medical education program was discontinued in February 2013 (Note 15).

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.

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 between February 2012 and April 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."

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (continued)

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, 2012 and 2011 approximated \$661,000 and \$703,000, respectively. Future minimum lease payments under these leases are as follows:

Years ending December 31,

2013	\$ 740,000
2014	759,000
2015	714,000
2016	401,000
2017	354,000
Thereafter	<u>1,163,000</u>
Total	<u>\$ 4,131,000</u>

Medical Education Program

In connection with the Center's medical education program, certain funding commitments were entered into with resident training programs at Jackson Memorial Hospital. These commitments were effective January 1, 2011. The commitments expired by their terms in 2013. The Center's medical education program was discontinued in February 2013 and was absorbed by an unaffiliated entity. The Center has not made any of the payments since that time, based on the understanding that the payments would be made by others involved in the ongoing medical education program now being administered by the unaffiliated entity. It is the Center's understanding that all such payments have been made.

The former Senior Executive Vice President of Medical Education of the Center and the entities responsible for the management and oversight of the program (Note 14) have informed the Center of their intent to assert a claim arising from the discontinuance of the medical education program. No such claim has been asserted. The outcome of the any claim, if asserted, cannot presently be predicted with certainty. Nevertheless, the Center does not believe that such a claim would have merit, and, if a claim is asserted, the Center intends to defend it vigorously and to assert a counterclaim arising from the events leading to the discontinuance of the medical education program.

16. SUBSEQUENT EVENT

On April 23, 2013, Miami-Dade County (the "County") issued their monitoring visit report on the Ryan White Part A program administered by the Center for contract years 2012 and 2011. The County noted \$580,166 in salaries which did not have the proper support for various employees time and effort spent on the Ryan White Part A program. This assessment has been accrued for as of December 31, 2012 in the accompanying financial statements under the caption "Grants payable" in the Statements of Financial Position. The Center has entered into a payment plan for the repayment of these funds.

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, 2012, 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 June 6, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

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.

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 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 items 12-03 and 12-04.

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

Miami Beach Community Health Center, Inc.'s Response to Findings

The Center's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, Ariz & Fama

Miami, Florida
June 6, 2013



INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB 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, 2012. 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.

Basis for Qualified Opinion on Consolidated Health Centers Cluster, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease and HIV Emergency Relief Project Grants Programs

As described in the accompanying Schedule of Findings and Questioned Costs, the Center did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
12-03	93.914, 93.917	HIV Emergency Relief Project Grants, HIV Care Formula Grants	Reporting
12-04	93.914	HIV Emergency Relief Project Grants	Allowable Costs

Compliance with such requirements is necessary, in our opinion, for the Center to comply with the requirements applicable to that program.

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

Qualified Opinion on Consolidated Health Centers Cluster, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease and HIV Emergency Relief Project Grants Programs

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, 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 Consolidated Health Centers Cluster, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease and HIV Emergency Relief Project Grants Programs for the year ended December 31, 2012.

Unmodified Opinion on the Other 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 other major federal programs identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 12-01 and 12-02. Our opinion on each major federal program is not modified with respect to these matters.

The Center’s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Center’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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

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. We consider all of the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

Miami Beach Community Health Center, Inc.'s Responses to Findings

The Center's response to the internal control over compliance findings identified in our audit is described in the accompanying of schedule findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, Ariz & Fana

Miami, Florida
June 6, 2013

SUPPLEMENTAL INFORMATION

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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	\$ 2,371,528
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	H80CS00182	<u>1,609,195</u>
Subtotal Consolidated Health Centers Cluster Program			3,980,723
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00103	599,485
Passed through Miami-Dade County: HIV Emergency Relief Project Grants	93.914	R-1373-09/R-1381-06	6,231,760
Passed through Health Council of South Florida: HIV Care Formula Grants	93.917	CODDZ	856,701
Passed through Healthy Start Coalition of Miami-Dade: Medical Assistance Program	93.778	HSMBC1112	55,840
Medical Assistance Program	93.778	HSMBC1213	10,461
Maternal & Child Health Services Block Grant to the States	93.994	HSMBC1112	39,233
Maternal & Child Health Services Block Grant to the States	93.994	HSMBC1213	11,590
Passed through Public Health Trust of Miami-Dade County: HIV Care Formula Grants	93.917	CODEC-MIA	98,214
Passed through State of Florida Department of Health: HIV Prevention Program	93.940	DEV93	<u>46,605</u>
Total U.S. Department of Health and Human Services			<u>\$ 11,930,612</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, 2012

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, 2012, two requests for reimbursement submitted were pending approval from the Department; therefore, these are recorded as a receivable.

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, 2012 and 2011, the Center has a liability to Health Council of South Florida, Inc. of approximately \$93,000 and \$66,000, respectively, for the unexpended funds.

5. GRANT ASSESSMENT

On April 23, 2013, Miami-Dade County (the "County") issued their monitoring visit report on the Ryan White Part A program administered by the Center. The County noted \$580,166 in salaries which did not have the proper support for various employees' time and effort spent on the Ryan White Part A program for contract years 2012 and 2011. This assessment has been accrued for in the accompanying financial statements under the caption "Grants payable" in the Statements of Financial Position. This payable is not reflected as a reduction in the accompanying Schedule of Expenditures of Federal Awards.

6. 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, 2012

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 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: Qualified

Material weakness(es) identified? X Yes 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: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes 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
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.914	HIV Emergency Relief Project Grants
93.917	HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 357,918

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, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

CURRENT YEAR FINDINGS

12-01: The Center's internal controls are not operating effectively to ensure the Schedule of Expenditures of Federal Awards ("SEFA") is accurately prepared in regards to indirect federal funding, placing the Center at risk of incomplete and inaccurate reporting to the federal government and pass-through agencies.

Criteria:

As a condition of receiving federal funding, regulations require the Center to prepare an annual Schedule of Expenditures of Federal Awards detailing the value and type of federal assistance received each year. The SEFA is a required part of the Center's annual financial statement reporting package and identifies, for the independent public accountants, programs that are subject to the single audit each year.

Effect:

As a result of the prior year finding 11-01, the Center has implemented new policies and procedures surrounding the identification and recordkeeping of federal awards; however, the new policies and procedures were not fully operational as of December 31, 2012. Controls over direct federal awards were implemented; controls over indirect federal awards are currently under development. We identified significant reporting errors. All of the errors identified were provided to the Center for correction prior to submission of the schedule to the federal government.

Cause:

The Center has not fully implemented internal controls surrounding indirect federal awards to ensure the SEFA is accurate and complete.

Recommendation:

We recommend the Center implement new procedures to ensure the accuracy and quality of the SEFA. The Center should perform a detailed reconciliation of indirect federal assistance reported by grantors to the final schedule.

Management's Response:

For federal grants made directly to the Center, Federal Financial Reports were prepared and reconciled to the general ledger and the SEFA. The largest of the indirect grants (AICP) was accounted for as a trust account rather than the Center being a sub-recipient and therefore was not originally included on the SEFA. Upon further review and discussion with the auditors, management agrees with the auditors' finding and will begin accounting and reporting for this grant as a sub-recipient. For all other and any future indirect receipts of federal awards, new procedures will be implemented that include requiring the awarding entity to identify the existence of any federal portion of any grant or contract entered into by the Center within the body of the grant or contract document, and to specify a financial contact within the awarding agency for required financial communications, including but not limited to audit confirmation of information required for the SEFA.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

CURRENT YEAR FINDINGS (CONTINUED)

12-02: In 2012, current management of the Center became aware of an alleged fraud involving the embezzlement of funds by the former Chief Executive Officer. Refer to footnote 2 of the financial statements for more information. The Center did not have the proper controls in place to prevent and/or detect the fraud.

Criteria:

Fraud, noncompliance, and abuse that do not involve federal awards or OMB Circular A-133 reporting but have an effect on the financial statements that is more than inconsequential are required to be reported under *Government Auditing Standards*.

Effect:

The embezzlement is believed to have occurred from 2007 through 2012. A draft forensic report estimates the total embezzlement by the former CEO at approximately \$7,000,000. The embezzlement, to a large extent, related to unauthorized payroll and disbursements that did not contain the necessary approvals and third party documentation.

Cause:

The Center had a weak internal control infrastructure which created an opportunity for former management to override the weak controls in place. The role of the Board of Directors as it relates to fraud and abuse was not well established. There was an insufficient level of oversight by the Board of Directors and it appears as if only a low level of financial detail was reported to the Board of Directors.

Recommendation:

A proven and effective deterrent to fraud and abuse is the establishment of an antifraud culture within the organization. A strong and highly ethical "tone at the top" can provide significant strength to deter fraud. The Center should implement and monitor new policies and procedures which extend the Board of Director's involvement in the Center's financial operations. Sufficient segregation of duties should be implemented and employee roles and duties should be reviewed. Policies and procedures should give importance to appropriate oversight, supervision and review.

Management's Response:

Management continues to conduct staff meetings with all employees to follow up on what occurred and to encourage employees to follow the Center's policies and procedures for reporting suspected fraudulent activity. The Compliance Department conducts ongoing staff training to ensure that staff is able to identify and report warning signs of questionable activity. Management believes these actions are developing a culture of transparency, honesty and integrity.

New policies have been adopted requiring Board approval for: all senior executive compensation, all bonuses paid to any employee totaling over \$1,000 per fiscal year, any check for more than \$500 not accompanied by third party documentation, annual IRS Form 990, annual operating and capital budgets, and the selection of the audit firm.

Management has implemented a formal monthly closing process utilizing checklists designed specifically for the organization. The monthly closing process includes supervisory review and approval for all month end journal entries and requires that all general ledger balance sheet accounts be documented, supported, reconciled and approved by the CFO. Management has developed new monthly financial reporting procedures that provide more information to the Board Finance Committee and policies have been adopted requiring Board approval of the monthly financial statements. Management has implemented a reasonable deadline to complete each month end close. Finally, the Center has added members to its Board of Directors with legal and financial expertise. These new members also serve on the Finance Committee, which is charged with direct oversight of the Center's finances and recommendation of independent audit firms to the Board at large.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

12-03: The federal deadline for the Center's December 31, 2011 Single Audit Reporting Package was September 30, 2012; however the Center submitted the Single Audit Reporting Package to the federal clearinghouse on November 20, 2012.

Federal Awarding Agency:	Not applicable
Pass-Through Entity:	Not applicable
CFDA Number and Title:	Not applicable
Federal Award Number:	Not applicable
Applicable Compliance Component:	Not applicable
Questioned Cost Amount:	Not applicable

Criteria:

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the Center to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the Center's federal oversight agency approves an extension of this deadline.

Effect:

The late submission affects all federal programs the Center administered. This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for the individual federal programs, as this was not caused by the programs' administration.

Cause:

As discussed in finding 12-02, in 2012, current management of the Center became aware of a fraud. The Center's 2011 single audit was underway when the fraud was discovered, which led to the termination of the former independent auditor's audit engagement. A new independent accounting firm was engaged, and the 2011 auditor's reports were dated October 23, 2012.

Recommendation:

We recommend the Center continue to work proactively to ensure that all future Single Audit Reporting Packages are submitted timely.

Management's Response:

Management does not expect the events that transpired to cause the Single Audit for the year ended December 31, 2011 to be filed late to recur in light of the significant strengthening of the Center's internal controls and culture of compliance. Further, the Center now provides monthly and year-end financial statements on a regular schedule to the Board of Directors. As a result, the Single Audit for the year ended December 31, 2012 will be completed and submitted well before the deadline of September 30. Management expects this process to continue.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

12-04: The Center maintained inappropriate time and effort documentation of employees to support services provided to patients.

Federal Awarding Agency:	United States Department of Health and Human Services
Pass-Through Entity:	Miami-Dade County
CFDA Number and Title:	93.914 HIV Emergency Relief Project Grants
Federal Award Number:	R-1373-09/R-1381-06
Applicable Compliance Component:	Allowable costs
Questioned Cost Amount:	\$580,166

Criteria:

The Center is responsible for maintaining adequate records of the time and effort of staff charged to each grant to substantiate allowable costs.

Effect:

Without the proper policies and procedures in place, staff did not adequately document the time and effort spent on patients receiving services under this grant. Subsequent to year end, the grantor determined \$580,166 was required to be reimbursed for improper documentation of the time and effort of staff charged to the grant.

Cause:

The cause of the condition is based upon former management's lack of adherence to the policies and procedures in place over time and effort reporting, and the lack of understanding by program management of this compliance requirement.

Recommendation:

We recommend the Center implement policies and procedures with the assistance of the grant to ensure proper time and effort reporting of staff.

Management's Response:

Management has developed and implemented new policies and procedures for time and effort reporting. These policies and procedures have been reviewed and accepted by the Center's largest single funder, Miami-Dade County, for use in the Ryan White Part A program. Since all funders follow the same federal time and effort reporting requirements, Management believes these new policies will also be acceptable to all other funding sources.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

Number	Finding	Resolution
11-01	The Center's internal controls are inadequate to ensure the Schedule of Expenditures of Federal Awards ("SEFA") is accurately prepared, placing the Center at risk of incomplete and inaccurate reporting to the federal government and pass through agencies.	Not corrected; Refer to finding 12-01 in Schedule of Findings and Questioned Costs.
11-02	The Center's administrative personnel lack a sufficient understanding of accounting principles generally accepted in the United States of America, specifically related to preparing financial statements, including footnote disclosures. This resulted in departures from U.S. GAAP which were identified as a result of audit procedures.	Corrective action plan taken.
11-03	In 2012, current management of the Center became aware of an alleged fraud involving the embezzlement of funds by the former Chief Executive Officer. Refer to footnote 2 of the financial statements for more information. The Center did not have the proper controls in place to prevent and /or detect the fraud.	Refer to finding 12-02 in Schedule of Findings and Questioned Costs.
11-04	We noted that there was a lack of review and reconciliation in many areas of the accounting function, including recording transactions in accounts receivable, revenue, accounts payable, accrued expenses and expenses and the general ledger. Additionally there is a lack of segregation of duties in the accounting department.	Corrective action plan taken.
11-05	During the audit it was noted that there is an overall lack of control over the check disbursement process.	Corrective action plan taken.
11-06	During our audit we noted an extensive amount of related-party transactions. It appears as if these transactions were not communicated to or approved by the Board of Directors.	Corrective action plan taken.
11-07	The Center is an organization with approximately \$37 million of revenue for the year under audit. The Center would benefit from better support and involvement from the governing Board. During our review of the board minutes, it was noted that the discussions regarding financial information was based on an incomplete set of financial statements and budget versus actual analysis. Additionally, we noted that no particular member has specialized training in the financial and accounting area.	Corrective action plan taken.
11-08	Currently, a general ledger cost center is not used for each source of federal, state, local and other funding. This practice makes it extremely difficult to determine the funds expended for each of the separate grants and contracts.	Corrective action plan initiated in 2012.
11-09	The Center does not have controls in place to ensure it complies with reporting requirements for the Consolidated Health Center grant.	Corrective action plan taken.

MIAMI BEACH COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF PRIOR YEAR'S FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Number	Finding	Resolution
11-10	Except for certain vendors for which a contract or agreement has been entered into that requires the vendor to certify they have not been suspended, debarred or otherwise excluded from receiving federal funds, the Center does not have a process in place to determine the suspension and debarment status of its vendors.	Corrective action plan taken.
11-11	The Center's patient services receivable has been impacted by the Center's lack of applying appropriate resources in the following areas: (1) reviewing and evaluating specific past-due accounts, and (2) determining bad debt by periodic review of the accounts receivable aging reports per the billing system. This finding is repeated from the December 31, 2010 audit as it was not fully corrected as of December 31, 2011.	Corrective action plan taken.