

La Familia Medical Center

Accountants' Reports and Financial Statements

June 30, 2010 and 2009

La Familia Medical Center
June 30, 2010 and 2009

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Independent Accountants' Report

Board of Directors
La Familia Medical Center
Santa Fe, New Mexico

We have audited the accompanying balance sheets of La Familia Medical Center (the Center) as of June 30, 2010 and 2009, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Familia Medical Center as of June 30, 2010 and 2009, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010, 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 and 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.

Board of Directors
La Familia Medical Center

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Centers*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

\s\ **BKD, LLP**

November 30, 2010

La Familia Medical Center

Balance Sheets

June 30, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 603,304	\$ 210,215
Short-term investments	525,585	475,171
Patient accounts receivable, net of allowance; 2010 - \$209,495 and 2009 - \$118,820	485,088	623,097
Grant and contract receivables	313,199	384,018
Estimated amounts due from third-party payers	33,298	37,363
Other receivables	5,366	1,016
Supplies	59,398	79,998
Prepaid expenses and other	2,591	5,815
	<u>2,027,829</u>	<u>1,816,693</u>
Beneficial Interest in Assets Held by Santa Fe Community Foundation	<u>50,276</u>	<u>46,937</u>
Property and Equipment, at Cost		
Buildings and leasehold improvements	5,978,288	5,483,742
Equipment	1,401,788	2,252,199
Construction in progress	27,372	410,560
	<u>7,407,448</u>	<u>8,146,501</u>
Less accumulated depreciation	3,404,898	3,858,688
	<u>4,002,550</u>	<u>4,287,813</u>
	<u>\$ 6,080,655</u>	<u>\$ 6,151,443</u>

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 23,682	\$ 10,223
Line of credit	-	300,000
Accounts payable and accrued expenses	319,856	786,647
Accrued payroll and vacation pay	535,443	510,344
Incurred but not reported liability	71,819	60,708
Estimated amounts due to third-party payers	-	84,074
	<hr/>	<hr/>
Total current liabilities	950,800	1,751,996
	<hr/>	<hr/>
Long-term Debt	331,099	54,275
	<hr/>	<hr/>
Total liabilities	1,281,899	1,806,271
	<hr/>	<hr/>
Net Assets		
Board designated	150,000	-
Unrestricted	2,103,743	1,628,321
	<hr/>	<hr/>
Total unrestricted net assets	2,253,743	1,628,321
	<hr/>	<hr/>
Temporarily restricted	2,545,013	2,716,851
	<hr/>	<hr/>
Total net assets	4,798,756	4,345,172
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 6,080,655</u>	<u>\$ 6,151,443</u>

La Familia Medical Center
Statements of Operations
Years Ended June 30, 2010 and 2009

	2010	2009
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 5,631,404	\$ 5,664,902
U.S. Department of Health and Human Services grant revenue	3,120,217	2,425,045
Other grants and contract revenue	2,011,676	1,915,891
Contribution revenue	129,569	344,130
In-kind contribution revenue	47,122	51,049
Other	9,616	13,489
Net assets released from restrictions used for operations	211,838	201,277
	11,161,442	10,615,783
Expenses		
Salaries, wages and employee benefits	7,547,623	7,394,182
Purchased services and professional fees	701,084	1,157,954
Medical supplies	342,505	633,218
Other operating expenses	1,052,812	1,019,336
Provision for uncollectible accounts	488,286	441,015
Depreciation	367,542	373,828
Interest	22,009	26,784
In-kind expenses	47,122	51,049
Loss on disposal of equipment	21,402	-
	10,590,385	11,097,366
Operating Income (Loss)	571,057	(481,583)
Other Income (Expense)		
Change in beneficial interest in assets held by Santa Fe Community Foundation	3,339	(8,697)
Investment return	5,520	(79)
	8,859	(8,776)
Excess (Deficiency) of Revenues Over Expenses	579,916	(490,359)
Change in unrealized gains (losses)	45,506	(67,912)
Increase (Decrease) in Unrestricted Net Assets	\$ 625,422	\$ (558,271)

La Familia Medical Center
Statements of Changes in Net Assets
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 579,916	\$ (490,359)
Change in unrealized gains (losses)	<u>45,506</u>	<u>(67,912)</u>
Increase (decrease) in unrestricted net assets	<u>625,422</u>	<u>(558,271)</u>
Temporarily Restricted Net Assets		
Contributions received	40,000	40,000
Net assets released from restriction	<u>(211,838)</u>	<u>(201,277)</u>
Decrease in temporarily restricted net assets	<u>(171,838)</u>	<u>(161,277)</u>
Increase (Decrease) in Net Assets	453,584	(719,548)
Net Assets, Beginning of Year	<u>4,345,172</u>	<u>5,064,720</u>
Net Assets, End of Year	<u><u>\$ 4,798,756</u></u>	<u><u>\$ 4,345,172</u></u>

La Familia Medical Center
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Change in net assets	\$ 453,584	\$ (719,548)
Items not requiring (providing) cash		
Gain (loss) on disposal of assets	21,402	(580)
Depreciation	367,542	373,828
Change in beneficial interest in assets held by		
Santa Fe Community Foundation	(3,339)	8,697
Net realized and unrealized loss (gain) on investments	(50,414)	75,634
Provision for uncollectible accounts	488,286	441,015
Changes in		
Patient accounts receivable, net	(350,277)	(545,987)
Other receivables	66,469	(180,824)
Supplies	20,600	18,645
Prepaid expenses and other	3,224	20,913
Estimated amount due to/from third-party payers	(80,009)	170,694
Accounts payable and accrued expenses	(430,581)	337,263
	<u>506,487</u>	<u>(250)</u>
Investing Activities		
Proceeds from disposition of investments	-	302,624
Proceeds from sale of assets	-	580
Purchase of property and equipment	(103,681)	(389,699)
	<u>(103,681)</u>	<u>(86,495)</u>
Financing Activities		
Transfer to Santa Fe Community Foundation	-	(5,308)
Principal payments on long-term debt	(9,717)	(9,717)
	<u>(9,717)</u>	<u>(15,025)</u>
Increase (Decrease) in Cash and Cash Equivalents	393,089	(101,770)
Cash and Cash Equivalents, Beginning of Year	<u>210,215</u>	<u>311,985</u>
Cash and Cash Equivalents, End of Year	<u>\$ 603,304</u>	<u>\$ 210,215</u>
Supplemental Cash Flows Information		
Construction in progress in accounts payable	\$ -	\$ 68,417
Interest paid	\$ 22,009	\$ 26,784

La Familia Medical Center
Notes to Financial Statements
June 30, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

La Familia Medical Center (the Center) is a not-for-profit community health center incorporated in the State of New Mexico to provide comprehensive medical, dental and health education services to citizens and residents of the City of Santa Fe and adjoining areas. The Center places an emphasis on servicing the under-served population.

Use of Estimates

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

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010, cash equivalents consisted primarily of money market accounts with brokers.

The financial institution holding the Center's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Patient Accounts Receivable

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Center bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written-off as bad debts based on individual credit evaluation and specific circumstances of the account.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Supplies

The Center states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

A loss on disposal of equipment in the amount of \$21,402 was recorded for the year ended June 30, 2010. The loss was a result of the Center doing a full inventory of fixed assets, which resulted in the write off of some partially depreciated assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered to the Center and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Center provides care without charge, or at amounts less than its established rates, to patients meeting certain criteria under its charity care policy. Because the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The amount of charity care provided during the years ended June 30, 2010 and 2009 was approximately \$1,320,000 and \$1,695,000, respectively.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Donated Building Space

The Center occupies building space which is the property of the City of Santa Fe. The City of Santa Fe provides the space and a portion of the utilities to the Center and charges \$1 per year. The Center also leases a building which is located on land owned by the County of Santa Fe. The County of Santa Fe provides the premises to the Center and charges \$1 per year. Both donations of building space are long-term and the Center has recorded the long-term use of this property as an asset and temporarily restricted net assets (see Note 11).

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Center has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income. With a few exceptions, the Center is no longer subject to U.S. Federal examinations by tax authorities for years before 2007.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 2: Grant Revenue

The Center is the recipient of a Consolidated Health Centers grant from the U.S. Department of Health and Human Services. The general purpose of the Consolidated Health Centers' grant is to provide expanded health care service delivery for residents of Santa Fe, New Mexico and surrounding areas. Terms of the grant generally provide for funding of the Center's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2010 and 2009, the Center recognized \$3,120,217 and \$2,425,045, respectively, in grant revenue from the Consolidated Health Centers grant.

The Center is projected to receive \$3,015,567 for the year ending June 30, 2011.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under an Increased Demand for Services (IDS) grant. The Center has been awarded \$353,411 for the March 27, 2009 to March 26, 2011 period to assist in meeting the needs of their community.

In addition to these grants, the Center receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Center and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology with a final settlement determined after submission of an annual cost report. The Center is reimbursed a set encounter rate for all services provided under the plan.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Approximately 47% and 54% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance centers and preferred provider centers. The basis for payment to the Center under these agreements includes prospectively determined rates and discounts from established charges.

Note 4: Concentration of Credit Risk

The Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2010 and 2009 was:

	2010	2009
Medicare	13%	11%
Medicaid	32%	33%
Other third-party payers	27%	30%
Patients	28%	26%
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Short-term investments include:

	2010	2009
Bond funds	\$ 229,701	\$ 222,209
Equity funds	295,884	252,962
	<u>\$ 525,585</u>	<u>\$ 475,171</u>

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Total investment return is comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 612	\$ 7,643
Realized gains and losses	4,908	(7,722)
Change in unrealized gains (losses)	<u>45,506</u>	<u>(67,912)</u>
	<u>\$ 51,026</u>	<u>\$ (67,991)</u>

Note 6: Beneficial Interest in Assets of Santa Fe Community Foundation

During the fiscal years ended June 30, 2010 and 2009, the Center transferred assets to Santa Fe Community Foundation (the Foundation) and retained a beneficial interest in those assets. In addition, the Center is the beneficiary of donations made to the Foundation on the Center's behalf. The Foundation may distribute up to 50% of the fund to the Center, which is based on 75% approval of the Boards of the Center and the Foundation. Transfers of assets between the Center and the Foundation and earnings are recognized as increases or decreases in the beneficial interest. The cumulative amount of the retained beneficial interest included in the balance sheet was \$50,276 and \$46,937 at June 30, 2010 and 2009, respectively.

Note 7: Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Center and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of its malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Center's claim experience, no such accrual has been made. However, because of the risk in providing healthcare services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 8: Self-funded Health Insurance

The Center has a self-insured health plan for its employees. The Center has a \$30,000 specific stop-loss per employee each calendar year, with the total stop-loss for each calendar year based on the number of employees enrolled and the amount of premiums and other costs. Included in accounts payable and accrued expenses on the balance sheet at June 30, 2010 and 2009, is a liability in the amount of \$71,819 and \$60,708, respectively, for claims incurred, but not paid as of year-end.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 9: Line of Credit

The Center had an available line of credit for \$500,000, with interest at the bank's prime rate, plus 2.00% (5.25% at June 30, 2010). As of June 30, 2010 and 2009, the Center has an outstanding balance of \$300,000. Subsequent to June 30, 2010, the Center entered into a forbearance agreement which restructured the principle payments (Note 20). In accordance with Accounting Standards Update (ASU) 740, the Organization has classified the line of credit as long-term debt as of June 30, 2010 (Note 10).

Note 10: Long-term Debt

The Center has a secured loan from the New Mexico Finance Authority for \$145,000, which was used to finance the opening of the Southside Clinic. Interest on the loan is fixed at 3.00% and the loan matures on August 19, 2014. It is secured by the Center's accounts receivable, inventory and equipment. The New Mexico Finance Authority provides a discount in repaying principal and interest on the loan under a Contract for Services (CFS) agreement, provided that the Center continues providing health and dental care to the indigent population of Santa Fe. The amount of the discount is \$2,429 per year, which includes a portion of principle and interest.

Aggregate annual maturities of the New Mexico Finance Authority debt at June 30, 2010 and 2009 are:

	2010				
	Principal Portion Before CFS	Interest Portion Before CFS	Total Debt Service Before CFS	CFS Financial Assistance	Cash Repayment
2011	\$ 10,530	\$ 1,616	\$ 12,146	\$ (2,429)	\$ 9,717
2012	10,846	1,300	12,146	(2,429)	9,717
2013	11,172	975	12,147	(2,429)	9,718
2014	11,506	640	12,146	(2,429)	9,717
2015	10,727	295	11,022	(2,024)	8,998
Thereafter	-	-	-	-	-
	54,781	4,826	59,607	(11,740)	47,867
Less current maturities	10,530	1,616	12,146	(2,429)	9,717
Noncurrent portion	<u>\$ 44,251</u>	<u>\$ 3,210</u>	<u>\$ 47,461</u>	<u>\$ (9,311)</u>	<u>\$ 38,150</u>

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

	2009				
	Principal Portion Before CFS	Interest Portion Before CFS	Total Debt Service Before CFS	CFS Financial Assistance	Cash Repayment
2010	\$ 10,223	\$ 1,923	\$ 12,146	\$ (2,429)	\$ 9,717
2011	10,530	1,616	12,146	(2,429)	9,717
2012	10,846	1,300	12,146	(2,429)	9,717
2013	11,172	975	12,147	(2,429)	9,718
2014	11,506	640	12,146	(2,429)	9,717
Thereafter	10,221	295	10,516	(2,024)	8,492
	<u>64,498</u>	<u>6,749</u>	<u>71,247</u>	<u>(14,169)</u>	<u>57,078</u>
Less current maturities	<u>10,223</u>	<u>1,923</u>	<u>12,146</u>	<u>(2,429)</u>	<u>9,717</u>
Noncurrent portion	<u>\$ 54,275</u>	<u>\$ 4,826</u>	<u>\$ 59,101</u>	<u>\$ (11,740)</u>	<u>\$ 47,361</u>

In addition to the New Mexico Authority debt, the line of credit was restructured to provide that the principal and interest will be paid in a combined monthly installment of \$2,600, beginning November 1, 2010 with a balloon payment due on October 1, 2011. Interest is payable monthly at the bank's prime rate plus 2%.

Aggregate annual maturities of total long term debt at June 30, 2010 were:

2011	\$ 23,682
2012	297,694
2013	11,172
2014	11,506
2015	10,727
Thereafter	<u>-</u>
	354,781
Less current maturities	<u>23,682</u>
Noncurrent portion	<u>\$ 331,099</u>

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 11: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2010</u>	<u>2009</u>
Salazar and Agua Fria Schools	\$ 32,179	\$ 21,589
Donated use of buildings	<u>2,512,834</u>	<u>2,695,262</u>
	<u>\$ 2,545,013</u>	<u>\$ 2,716,851</u>

During 2010 and 2009, net assets were released from donor restrictions by incurring expenses and satisfying the restricted purpose of the building use and patient care in the amount of \$211,838 and \$201,277, respectively.

Note 12: Board Designated Net Assets – Unrestricted

The Board has designated net assets for the following purposes:

	<u>2010</u>	<u>2009</u>
Board designated for self-insured medical claims	<u>\$ 150,000</u>	<u>\$ -</u>

Note 13: Grants and Contract Revenue

For the years ended June 30, 2010 and 2009, other grants and contract revenue consisted of the following:

	<u>2010</u>	<u>2009</u>
State of New Mexico Department of Health	\$ 1,197,303	\$ 1,097,222
City of Santa Fe	176,185	405,980
New Mexico Primary Care Association	31,500	70,885
St. Vincent Hospital	284,139	323,200
Other	<u>322,549</u>	<u>18,604</u>
	<u>\$ 2,011,676</u>	<u>\$ 1,915,891</u>

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 14: Related Party Transactions

One of the members of the Center's Board of Directors is a partner in a law firm that the Center obtained legal services from during the years ended June 30, 2010 and 2009. The Center made payments of approximately \$3,500 and \$15,000 to the law firm for legal services rendered during 2010 and 2009, respectively.

Note 15: Functional Expenses

The Center provides health care services primarily to residents within its service area. Expenses related to providing these services are as follows:

	2010	2009
Health care services	\$ 9,129,260	\$ 9,637,835
General and administrative	1,359,600	1,379,964
Fundraising	38,525	79,567
	<u>\$ 10,527,385</u>	<u>\$ 11,097,366</u>

Note 16: Operating Leases

The Center leases various equipment and facilities under operating leases expiring at various dates through 2012.

Future minimum lease payments at June 30, 2010 were:

2011	\$ 74,643
2012	<u>25,998</u>
Future minimum lease payments	<u>\$ 100,641</u>

Rental expense for all operating leases was \$73,342 and \$105,033 for the years ended June 30, 2010 and 2009, respectively.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 17: Retirement Plan

The Center has a 403(b) tax deferred annuity plan covering substantially all employees. For each eligible participant, the Center contributes a discretionary matching contribution. During the years ended June 30, 2010 and 2009, the Center contributed \$96,601 and \$82,669 towards the plan, respectively.

Note 18: Disclosures About Fair Value of Assets and Liabilities

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Beneficial Interest in Assets of Santa Fe Community Foundation

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the beneficial interest in assets of Santa Fe Community Foundation. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Center does not carry any Level 3 investments.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2010 and 2009:

	2010			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value			
Bond funds	\$ 229,701	\$ 229,701	\$ -	\$ -
Equity funds	295,884	295,884	-	-
Beneficial interest in assets held by Santa Fe Community Foundation	50,276	-	50,276	-

	2009			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value			
Bond funds	\$ 252,962	\$ 252,962	\$ -	\$ -
Equity funds	222,209	222,209	-	-
Beneficial interest in assets held by Santa Fe Community Foundation	46,937	-	46,937	-

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Grant Revenues

Concentration of revenues related to grant awards and other support are described in Note 2.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 7.

Investments

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Current Economic Conditions

The current protracted economic decline continues to present healthcare organizations with difficult circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Center.

The majority of the Center's patients are covered by government sponsored Medicare or Medicaid programs. The effect on the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs. Further, current economic conditions have made it difficult for certain other patients to pay for services rendered.

La Familia Medical Center

Notes to Financial Statements

June 30, 2010 and 2009

Note 20: Subsequent Events

Subsequent Events

Subsequent events have been evaluated through November 30, 2010, which is the date the financials statements were available to be issued.

Forbearance Agreement

Effective September 30, 2010, the Center entered into a forbearance agreement which restructured the line of credit referred to in Note 9. Principal amounts will be paid in monthly installments of \$2,600 beginning November 1, 2010 with a balloon payment due on October 1, 2011. Interest on the principal balance will continue to accrue at the bank's prime rate plus 2%.

Supplementary Information

La Familia Medical Center
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS00606-04-02	\$ 754,599
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	2 H80 CS00606-05-00	<u>2,125,968</u>
Total				<u>2,880,567</u>
ARRA-IS to Health Centers Grant	U.S. Department of Health and Human Services	93.703	----	154,972
ARRA-CIP	U.S. Department of Health and Human Services	93.703	----	<u>33,011</u>
				<u>187,983</u>
				<u><u>\$ 3,068,550</u></u>

Notes to Schedule

1. This schedule includes the federal awards activity of La Familia Medical Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Centers*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. La Familia Medical Center did not provide a federal award to a subrecipient during the year ended June 30, 2010.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Directors
La Familia Medical Center
Santa Fe, New Mexico

We have audited the financial statements of La Familia Medical Center (the Center) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
La Familia Medical Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Center's management in a separate letter dated November 30, 2010.

This report is intended solely for the information and use of the governing body, management and others within the Center and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

November 30, 2010

**Independent Accountants' Report on Compliance with Requirements
Applicable to each Major Program and an Internal Control over
Compliance in Accordance with OMB Circular A-133**

Board of Directors
La Familia Medical Center
Santa Fe, New Mexico

Compliance

We have audited the compliance of La Familia Medical Center (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the compliance of La Familia Medical Center based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Centers*. 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. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, La Familia Medical Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Board of Directors
La Familia Medical Center

Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

November 30, 2010

La Familia Medical Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was:
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

La Familia Medical Center
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

7. The Center's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers	93.224

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Center qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

La Familia Medical Center
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

La Familia Medical Center
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
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No matters were reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Status
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No matters were reportable.