FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

LA FAMILIA MEDICAL CENTER

June 30, 2012 and 2011

atkinson

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
La Familia Medical Center

We have audited the accompanying statements of financial position of La Familia Medical Center (the Center) (a non-profit organization) as of June 30, 2012 and 2011, and the related statements of activities and 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 the 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A11, the Center early adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-07, *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities* for the year ended June 30, 2012. This standard changed the presentation for bad debt expense on the statement of activities and changes in net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of La Familia Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 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.

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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 5, 2012

La Familia Medical Center

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2012	(As Restated) 2011
CURRENT ASSETS		
Cash and cash equivalents	$ 1,190,860	$ 1,072,976
Short-term investments	594,535	628,848
Patient accounts receivable, net of allowance for doubtful accounts of $478,402 in 2012 and $607,989 in 2011	417,924	809,812
Grant and contract receivables	347,155	254,907
Estimated amounts due from third-party payers	20,000	30,000
Medical supply inventory	150,466	177,087
Total current assets	2,720,940	2,973,630
PROPERTY AND EQUIPMENT		
Equipment	2,344,356	2,264,162
Buildings and leasehold improvements	2,317,230	2,194,956
Construction in progress	460,122	37,197
	5,121,708	4,496,315
Less accumulated depreciation	(1,729,889)	(1,528,338)
Net property and equipment	3,391,819	2,967,977
DONATED USE OF BUILDINGS	5,255,225	5,230,620
BENEFICIAL INTEREST IN ASSETS HELD BY SANTA FE COMMUNITY FOUNDATION	54,570	56,244
Total assets	$ 11,422,554	$ 11,228,471

LIABILITIES AND NET ASSETS

	2012	(As Restated) 2011
CURRENT LIABILITIES		
Accounts payable	$ 203,430	$ 234,582
Accrued payroll and related liabilities	614,757	566,095
Incurred but not yet reported self insurance claims	27,444	63,233
Deferred revenue	479,953	213,936
Long-term debt, current portion	58,763	300,682
Total current liabilities	1,384,347	1,378,528
LONG-TERM DEBT, less current portion	231,706	34,219
Total liabilities	1,616,053	1,412,747
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted, undesignated	4,292,659	4,374,038
Unrestricted, board designated	150,000	150,000
Total unrestricted	4,442,659	4,524,038
Temporarily restricted	5,363,842	5,291,686
Total net assets	9,806,501	9,815,724
Total liabilities and net assets	$ 11,422,554	$ 11,228,471

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

La Familia Medical Center

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Net patient service revenue, net of contractual allowance and discounts	$ 4,927,035	$ -	$ 4,927,035
Provision for doubtful accounts	(575,943)	-	(575,943)
Net patient service revenue less provision for doubtful accounts	4,351,092	-	4,351,092
Federal revenue	3,753,606	-	3,753,606
Other grants and contract revenue	2,089,128	-	2,089,128
In-kind revenue	76,636	656,000	732,636
Contribution revenue	76,468	74,220	150,688
Other	120,062	-	120,062
Net assets released from restrictions	658,064	(658,064)	-
Total revenue and support	11,125,056	72,156	11,197,212
OPERATING EXPENSES			
Salaries, wages, and employee benefits	7,991,902	-	7,991,902
Other operating expenses	929,437	-	929,437
Purchased services and professional fees	744,067	-	744,067
In-kind expenses	708,031	-	708,031
Medical supplies	474,562	-	474,562
Depreciation and amortization	304,609	-	304,609
Interest	25,910	-	25,910
Loss on disposal of property and equipment	506	-	506
Total operating expenses	11,179,024	-	11,179,024
CHANGES IN NET ASSETS FROM OPERATIONS	(53,968)	72,156	18,188
Net realized/unrealized loss on investments	(27,411)	-	(27,411)
CHANGES IN NET ASSETS	(81,379)	72,156	(9,223)
Net assets, beginning of year	4,524,038	5,291,686	9,815,724
Net assets, end of year	$ 4,442,659	$ 5,363,842	$ 9,806,501

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

La Familia Medical Center

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED

For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	(As Restated) Total
REVENUE AND SUPPORT			
Net patient service revenue, net of contractual allowances and discounts	$ 5,259,686	$ -	$ 5,259,686
Provision for doubtful accounts	(437,491)	-	(437,491)
Net patient service revenue less provision for doubtful accounts	4,822,195	-	4,822,195
Federal revenue	4,634,781	-	4,634,781
Other grants and contract revenue	1,836,481	-	1,836,481
In-kind revenue	47,122	-	47,122
Contribution revenue	181,572	-	181,572
Other	91,240	-	91,240
Net assets released from restrictions	583,549	(583,549)	-
Total revenue and support	12,196,940	(583,549)	11,613,391
OPERATING EXPENSES			
Salaries, wages, and employee benefits	7,591,226	-	7,591,226
Other operating expenses	1,122,387	-	1,122,387
Purchased services and professional fees	798,519	-	798,519
In-kind expenses	47,122	-	47,122
Medical supplies	460,711	-	460,711
Depreciation and amortization	291,001	-	291,001
Interest	20,638	-	20,638
Loss on disposal of property and equipment	6,087	-	6,087
Total operating expenses	10,337,691	-	10,337,691
CHANGES IN NET ASSETS FROM OPERATIONS	1,859,249	(583,549)	1,275,700
Net realized/unrealized gains on investments	107,441	-	107,441
CHANGES IN NET ASSETS	1,966,690	(583,549)	1,383,141
Net assets, beginning of year, as previously reported	2,253,743	2,545,013	4,798,756
Prior period adjustments (Note O)	303,605	3,330,222	3,633,827
Net assets, beginning of year, as restated	2,557,348	5,875,235	8,432,583
Net assets, end of year	$ 4,524,038	$ 5,291,686	$ 9,815,724

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

La Familia Medical Center

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2012	(As Restated) 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (9,223)	$ 1,383,141
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments	37,646	(96,197)
Depreciation and amortization	304,609	291,001
Loss on disposal of property and equipment	506	6,087
Provision for doubtful accounts	575,943	437,491
Donated use of building	631,359	556,192
Change in beneficial interest in assets held by Santa Fe Community Foundation	1,674	(5,968)
Change in other assets and liabilities:		
Patients accounts receivable	(184,055)	(1,061,758)
Grant and contract receivables	(92,248)	58,292
Estimated amounts due from third-party payers	10,000	3,298
Medical supply inventory	26,621	(115,098)
Accounts payable	(31,152)	(85,274)
Accrued payroll and related liabilities	48,662	30,652
Incurred but not yet reported self insurance claims	(35,789)	(8,586)
Deferred revenue	266,017	213,936
Net cash provided by operating activities	1,550,570	1,607,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,393,540)	(1,120,610)
Purchases of investments	(32,447)	10,019
Sales of investment	37,733	-
Net cash used in investing activities	(1,388,254)	(1,110,591)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(44,432)	(19,880)
Net cash used in financing activities	(44,432)	(19,880)
NET INCREASE IN CASH AND CASH EQUIVALENTS	117,884	476,738
Cash and cash equivalents, beginning of year	1,072,976	596,238
Cash and cash equivalents, end of year	$ 1,190,860	$ 1,072,976

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

La Familia Medical Center

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30,

SUPPLEMENTAL CASH FLOW DATA

	2012	2011
In-kind revenues	$ 732,636	$ 47,122
In-kind expenses	708,031	47,122
Interest paid in cash	25,910	20,638

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Organization and Program

La Familia Medical Center (the Center) is a non-profit organization incorporated in the State of New Mexico. The Center's purpose is to provide high quality, comprehensive medical, dental and health education services with special emphasis on the underserved. These services are affordable and culturally sensitive, and are delivered in a manner respectful of patients' privacy, rights, and dignity, regardless of their financial resources. The primary location of clients served is from Santa Fe and the surrounding area.

2. Tax Status

La Familia Medical Center is an organization described in Section 501(c)(3) of the Internal Revenue Code, and accordingly, is exempt from federal and state income taxes. La Familia Medical Center has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

The Center applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by the Center for the years ended June 30, 2012 and 2011. The Center's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. There were no income tax penalties or interest for the years ended June 30, 2012 and 2011. Under the statute of limitations, the Center's tax returns are no longer subject to examination by tax authorities for years prior to 2009.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Principal estimates include depreciation and the allowance for doubtful accounts.

4. Financial Statement Presentation

La Familia Medical Center is required to report information regarding its financial position and activities according to the three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Financial Statement Presentation – Continued

Unrestricted net assets – represents net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – represents net assets subject to donor-imposed stipulations that will be met either by actions of the Center and/or the passage of time.

Permanently restricted net assets – represents net assets subject to donor-imposed stipulations that must be maintained permanently by the Center. The Center had no permanently restricted net assets at June 30, 2012 or 2011.

5. Cash and Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents.

Cash consists of checking accounts, cash on hand and money market funds included in investments. Cash equivalents and other investment balances are maintained at various financial institutions. The financial institution holding the Center's cash is participating in the FDIC's Transaction Account Guarantee Program. Beginning December 31, 2010 through December 31, 2012, deposits held in non-interest bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions. Accounts at other institutions may at times exceed federally or commercially insured limits. The Center has not experienced any losses from, and believes it is not exposed to significant credit risk from these deposits.

6. Investments

Investments are carried at fair value. Fair value is 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. Realized gains and losses are recorded on a specific identification method upon the sale of investment assets. Realized and unrealized gains and losses on investments are reported as a non-operating item after changes in net assets from operations. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Receivables

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Center provides for 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. No collateral is secured on receivables for medical services. No individual can be denied medical treatment based on the terms of the Center's Rural Primary Health Care Act funding.

8. Medical Supplies Inventory

Inventories consist of medical, laboratory, and pharmaceutical supplies stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

9. Property and Equipment

Property and equipment acquisitions in excess of $500 are recorded at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight line method over their useful lives, which range from 5 to 39 years. Repairs and maintenance are charged to expense as incurred.

No interest has been capitalized on the construction-in-progress during June 30, 2012 and 2011.

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

10. Deferred Revenue

On June 30, 2012, the Center had deferred the recognition of certain revenues related to private grants for funding received in advance of the related cost expenditures. Included in deferred revenue are amounts received in relation to Medicaid incentive payments for meaningful use of electronic records. Revenue is recorded when all requirements are met, including timing restrictions, if any.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition

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 payors that provide for payments at amounts different from its established rates. Net medical services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual adjustments represent the difference between the Center's billings at established rates for services and amounts reimbursed by third-party payors. Services rendered to Medicare and certain Medicaid program beneficiaries are paid at predetermined rates. Retroactive adjustments are recorded when received. The allowance for doubtful accounts is assessed by management by determining when time expires for Medicaid and Medicare to be billed, as well as historical collection information.

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, 2012 and 2011 was approximately $1,651,000 and $1,839,000, respectively.

Sliding Fee Scale

The Center provides care to patients who meet federal poverty guidelines under a sliding fee scale policy at amounts less than its established rates.

Implementation of Accounting Standards Update 2011-07

The Center early adopted Accounting Standards Update (ASU) 2011-07, *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities* for the year ending June 30, 2012. ASU 2011-07 was issued to provide improved financial display and disclosure for health care entities that provide primary care without being able to assess the ability of patients to pay. For these health care entities, patient service revenue and the corresponding provision for doubtful accounts can be overstated by related amounts. For health care entities that qualify, including La Familia Medical Center, this standard requires the presentation of the provision for doubtful accounts as a reduction of net patient revenue rather than as an operating expense.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

As a result of all revenue recognition policies affecting net patient revenue, the Center records a significant provision for doubtful accounts related to uninsured or other patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts, but before provision for doubtful accounts recognized by major payor sources is as follows:

	June 30, 2012		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 3,541,096	$ 1,385,939	$ 4,927,035
Provision for doubtful accounts	(414,679)	(161,264)	(575,943)
	$ 3,126,417	$ 1,224,675	$ 4,351,092

	June 30, 2011		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 3,997,282	$ 1,262,404	$ 5,259,686
Provision for doubtful accounts	(332,493)	(104,998)	(437,491)
	$ 3,664,789	$ 1,157,406	$ 4,822,195

The allowance for doubtful accounts is allocated as follows:

	Third Party Payor	Self-Pay	Total
June 30, 2012	$ 178,372	$ 300,030	$ 478,402
June 30, 2011	$ 302,994	$ 304,995	$ 607,989

The percentage of doubtful accounts for the Self Pay category increased from approximately 50% to 63% as old stale third party payor balances were written off and reduced in this year. The presentation for net service revenue for 2011 was conformed to the presentation for 2012.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

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.

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.

12. Advertising Costs

The Center expenses advertising costs as incurred. Advertising and marketing costs totaled $28,677 and $34,515 for the years ended June 30, 2012 and 2011, respectively, and are reported in other operating expenses.

13. Functional Allocation of Expenses

The costs of providing the program and other activities of the Center have been summarized on a functional basis in Note K. Accordingly, certain costs have been allocated among the program and supporting services benefited.

14. Donated Goods and Services

The Center records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. There were no in-kind services recorded for 2012 or 2011.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Donated Buildings

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 owned by the County of Santa Fe. The County of Santa Fe provides certain premises to the Center and charges $1 per year. Both donations of buildings are for 25 years with an option to renew for a second 25 year period. The Center also has use of a Dental Center facility which is owned by Santa Fe Community College, in exchange for providing dental services. The agreement with Santa Fe Community College is for a period of 8 years. The leases are cancelable upon certain notice. The Center has recorded the long-term use of all property as a contribution receivable at estimated fair value. The fair value of the donated use of the buildings is reduced each year by an amount that amortizes the donation over the lease term. An equivalent amount is released from temporarily restricted net assets to unrestricted net assets annually. See Note O. A breakdown of balances for these properties is as follows:

	City of Santa Fe Donated Use of Building	County of Santa Fe Donated Use of Building	SF Comm. College Donated Use of Building	Total
Reported balance June 30, 2010 (restated)	$ 4,999,714	$ 787,098	$ -	$ 5,786,812
Amortization of fair value of donated use of building	(499,971)	(56,221)	-	(556,192)
Reported balance June 30, 2011 (restated)	4,499,743	730,877	-	5,230,620
New agreement with Santa Fe Community College for dental facility	-	-	656,000	656,000
Amortization of fair value donated use of building	(499,971)	(56,221)	(75,203)	(631,395)
	$ 3,999,772	$ 674,656	$ 580,797	$ 5,255,225

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Donor-Restricted Contributions

Contributions are reported in the period received. Donated property is recorded at fair value at date of donation. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

17. Reclassifications

Certain reclassifications have been made to the June 30, 2011 financial statement presentation to correspond to the current year's format.

18. Subsequent Events

Subsequent events have been evaluated through November 5, 2012, the date the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ending June 30, 2012. Management does not believe any material subsequent events have occurred that would require accrual or disclosure.

NOTE B – INVESTMENTS

Investments are stated at fair value and consist of the following at June 30:

	2012		
	Cost	Fair Value	Unrealized (Loss) Gain
Money market funds	$ 11,026	$ 11,026	$ -
Corporate bonds - global and U.S. fixed income	288,981	287,284	(1,697)
Emerging Markets Fund	19,726	20,476	750
International Small Co. Fund	38,778	40,275	1,497
International HBTM	74,820	79,808	4,988
Real Estate Securities Fund	12,489	13,187	698
U.S. Market Fund	49,977	51,832	1,855
U.S. Small Company Fund	24,767	25,803	1,036
US HBTM FUND	61,550	64,844	3,294
	$ 582,114	$ 594,535	$ 12,421

NOTE B – INVESTMENTS - CONTINUED

	2011		
	Cost	Fair Value	Unrealized (Loss) Gain
Money market funds	$ 12,988	$ 12,988	$ -
Corporate bonds - global and U.S. fixed income	287,566	284,448	(3,118)
Corporate equity securities	256,427	331,412	74,985
	$ 556,981	$ 628,848	$ 71,867

Investment return at June 30 is summarized as follows:

	2012	2011
Interest and dividend income	$ 10,235	$ 11,244
Unrealized (loss) gains, net	(37,646)	96,197
Total investment return	$ (27,411)	$ 107,441

NOTE C – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivables consisted of the following at June 30:

	2012	2011
Medicaid	$ 163,849	$ 441,428
Medicare	203,324	195,115
Private insurance	102,179	113,586
Special contracts	26,849	103,267
Patient and other	400,125	564,405
	896,326	1,417,801
Less allowance for doubtful accounts	(478,402)	(607,989)
Patients accounts receivable, net	$ 417,924	$ 809,812

NOTE D – MEDICAL SUPPLY INVENTORY

Inventory consisted of the following at June 30:

	2012	2011
Medical, dental, and other supplies	$ 126,489	$ 147,672
Pharmacy supplies	23,977	29,415
Balance at end of year	$ 150,466	$ 177,087

NOTE E – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value for assets and liabilities subject to a fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.

Level 2 — Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 — Inputs are unobservable inputs for the asset or liability.

Determination of Fair Value

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Center bases its fair value on 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. It is the Center's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the

NOTE E – FAIR VALUE MEASUREMENTS - CONTINUED

Determination of Fair Value - Continued

asset or liability, and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (disclosures required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification).

Bond Funds: are recorded based on net asset value based on quoted market prices in active markets.

Equity Funds: are recorded based on net asset value based on quoted market prices in active markets.

Beneficial Interest in Assets held by Santa Fe Community Foundation: are recorded at the Center's pro rata value for all assets.

Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Money market funds	$ 11,026	$ -	$ -	$ 11,026
Bond funds	287,284	-	-	287,284
Equity funds	296,225	-	-	296,225
Beneficial interest in assets held by Santa Fe Community Foundation	-	54,570	-	54,570
Total assets at fair value	$ 594,535	$ 54,570	$ -	$ 649,105

NOTE E – FAIR VALUE MEASUREMENTS - CONTINUED

Determination of Fair Value - Continued

Assets at Fair Value as of June 30, 2011

	Level 1	Level 2	Level 3	Total
Money market funds	$ 12,988	$ -	$ -	$ 12,988
Bond funds	284,448			284,448
Equity funds	331,412	-	-	331,412
Beneficial interest in assets held by Santa Fe Community Foundation	-	56,244	-	56,244
Total assets at fair value	$ 628,848	$ 56,244	$ -	$ 685,092

NOTE F – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2012	2011
A note payable to a local bank at prime rate plus 2% (5.25% at June 30, 2012 and 2011); secured by substantially all assets of the Center; due in monthly payments of $5,000 including interest with a final payment in May 2017.	$ 257,965	$ 289,836
Note payable to New Mexico Finance Authority at 3.00%; due August 2014; secured by accounts receivable, inventory and equipment. The NMFA provides a discount in repaying principal and interest, provided the Center continues providing health and dental care to the underserved population of Santa Fe. The amount of the discount is $2,429 per year, and is not included in the following amounts.	32,504	45,065
Total long-term debt	290,469	334,901
Less current portion	(58,763)	(300,682)
Long-term portion	$ 231,706	$ 34,219

NOTE F – LONG-TERM DEBT - CONTINUED

Maturities of long-term debt at June 30, 2012 are as follows:

Year Ending June 30,		
2013	$	58,763
2014		61,657
2015		62,675
2016		55,690
2017		51,684
	$	290,469

NOTE G – LEASES

The Center leases various equipment and facilities under operating leases expiring at various dates through 2017.

Future minimum lease payments at June 30, 2012 were:

Year Ending June 30,		
2013	$	61,194
2014		62,394
2015		46,596
2016		16,632
2017		514
	$	187,330

Rental expense for all operating leases was $73,116 and $38,826 for the years ended June 30, 2012 and 2011, respectively.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or periods at June 30:

	2012	(As Restated) 2011
Donated use of buildings	$ 5,255,225	$ 5,230,620
Beneficial interest in assets held by Santa Fe Community Foundation	54,570	56,244
Diabetes / obesity program	49,919	-
Miscellaneous	4,128	-
Salazar partnership grant	-	4,822
	$ 5,363,842	$ 5,291,686

Net assets released from restrictions at June 30 related to:

	2012	(As Restated) 2011
Donated use of buildings	$ 631,395	$ 556,192
Beneficial interest in assets held by Santa Fe Community Foundation	1,674	-
Diabetes / obesity program	20,081	-
Miscellaneous	92	-
Salazar partnership grant	4,822	27,357
	$ 658,064	$ 583,549

NOTE I – 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. The amount of the liability for claims incurred, but not paid as of year-end as of June 30, 2012 and 2011 totaled $27,444 and $63,233, respectively.

NOTE J – EMPLOYEE BENEFIT PLAN

The Center has a 403(b) tax deferred annuity plan (the Plan) covering substantially all employees. Employees may contribute funds to their retirement accounts according to Internal Revenue Service regulations. The Center may make matching and discretionary contributions to the Plan as determined annually by the Board of Directors. For the years ended June 30, 2012 and 2011, the Center contributed $106,829 and $89,979, respectively, towards the Plan.

NOTE K – FUNCTIONAL ALLOCATION OF EXPENSES

	2012	(As Restated) 2011
Health care services	$ 9,722,705	$ 9,113,569
General and administrative	1,398,720	1,161,783
Fundraising	57,599	62,339
	$ 11,179,024	$ 10,337,691

NOTE L – MEDICARE AND MEDICAID COST REPORT SETTLEMENTS

The Center performs medical services for patients under Medicare and Medicaid assistance programs. The Center is paid for these services on an interim rate per encounter and is required to file reports (Cost Reports) on an annual basis, which compare actual costs to administer the programs to the costs paid at the interim rate. The outcome of the audits is a settlement (amount due to/from Medicare or Medicaid). Settlements are recorded in the period in which they are received/paid.

NOTE M – ECONOMIC DEPENDENCE

During the fiscal year ended June 30, 2012, the Center received approximately 11% of its revenues from a contract with the State of New Mexico Medicaid program, which renews annually. The complete loss of this contract could have a significant impact on the Center.

In addition, during the fiscal year ended June 30, 2012, the Center received approximately 27% of its net medical service revenues from the U.S. Department of Health and Human Services Consolidated Health Centers grant. The complete loss of this grant could have a significant impact on the Center.

NOTE N – COMMITMENTS AND CONTINGENCIES

Grants

Expenditures under grant agreements may be subject to program or compliance audits by the grantor which may result in disallowed expenditures. There are no such audits in progress at June 30, 2012.

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 activities. 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.

Litigation

The Center, in its normal course of business, is subject to litigation. The Center has not experienced any losses from, and believes it is not exposed to, significant risk from these actions.

Construction-in-progress

The Center has received ARRA funding from the Federal government for the renovation of a dental facility. Management expects the construction-in-progress to be substantially complete by June 30, 2013.

NOTE O – PRIOR PERIOD ADJUSTMENTS

During the current year ended June 30, 2012, it was determined that the fair value of donated use of buildings was not reflecting an appraisal performed during the 2008 year end for the main building at 1035 Alto. The net effect of this restatement was to increase beginning net assets by $3,836,982 for the year ended June 30, 2011. In addition, the beginning equipment balance was decreased $203,155 to remove dental equipment acquired for the Center's new dental operations for which the title remains with Santa Fe Community College. The net effect of these two adjustments was to increase net assets by $3,633,827. The amortization of donated use of building was increased by $304,909 for 2011.

SCHEDULES AND REPORTS REQUIRED BY OMB CIRCULAR A-133

La Familia Medical Center

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

Federal Grantor - Pass-through Grantor - Program Title -	Grant or Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services Direct Awards:			
Consolidated Health Centers	2 H80 CS00606-10-00	93.224	$ 2,926,709
Consolidated Health Centers	5 H80 CS00606-11-00	93.224	266,064
Total Consolidated Health Centers			3,192,773
National Center for Chronic Disease Prevention and Health Promotion	1 H75 DP0030 16-01	93.998	35,468
ARRA - FIP	1 C80 CS17069-01-00	93.703	17,092
ARRA - CIP	6 C81 CS14077-01-02	93.703	508,273
Total ARRA			525,365
Total U.S. Department of Health and Human Services			$ 3,753,606

Notes to Schedule of Expenditures of Federal Awards

NOTE A

The accompanying schedule of expenditures of federal awards includes the federal grant 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, *Audit of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

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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*

Board of Directors
La Familia Medical Center

We have audited the financial statements of La Familia Medical Center as of and for the year ended June 30, 2012, and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Familia Medical 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*.

La Familia Medical Center's response to the findings identified in our audit are described in the accompanying schedules of findings and questioned costs. We did not audit La Familia Medical Center's response and accordingly express no opinion on the response.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 5, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
La Familia Medical Center

We have audited La Familia Medical Center's 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 La Familia Medical Center's major federal programs for the year ended June 30, 2012. La Familia Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of La Familia Medical Center's management. Our responsibility is to express an opinion on La Familia Medical Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Familia Medical 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 of La Familia Medical Center's compliance with those requirements.

In our opinion, La Familia Medical Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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 La Familia Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of La Familia Medical 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 internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

La Familia Medical Center's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit La Familia Medical Center's response and, accordingly, we express no opinion on the response.

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

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 5, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 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?	No
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
93.224	Consolidated Health Centers
93.703	ARRA – FIP
93.703	ARRA – CIP

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2012

Section II – Financial Statement Findings

Current year findings	None
Prior year findings	None

Section III – Federal Award Findings and Questioned Costs

Current year findings	None
Prior year findings	None

La Familia Medical Center

IDENTIFICATION OF AUDIT PRINCIPAL

June 30, 2012

Audit Principal:	Martin E. Mathisen, CPA, CGFM
Name and address of independent accounting firm:	Atkinson & Co., Ltd. 6501 Americas Parkway NE Suite 700 Albuquerque, New Mexico 87110
Audit period:	Year ended June 30, 2012
Telephone Number:	(505) 843-6492
Federal Employee ID Number:	85-0211867

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