



LA FAMILIA MEDICAL CENTER

**FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2015 and 2014

atkinson

PRECISE. PERSONAL. PROACTIVE.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
La Familia Medical Center

Report on Financial Statements

We have audited the accompanying financial statements of La Familia Medical Center (the Center) (a non-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Familia Medical Center as of June 30, 2015 and 2014, 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.

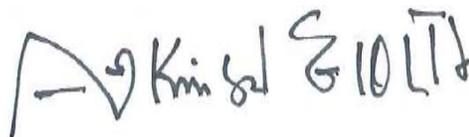
Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016, 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* in considering La Familia Medical Center's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish at the end.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 5, 2016

La Familia Medical Center

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,515,512	\$ 747,398
Short-term investments	723,528	731,441
Patient accounts receivable, net of allowance for doubtful accounts of \$395,905 in 2015 and \$455,738 in 2014	685,473	619,381
Grant and contract receivables	531,130	890,292
Estimated amounts due from third-party payors	13,000	20,000
Prepaid expenses	45,490	37,099
Medical supply inventory	<u>84,708</u>	<u>90,745</u>
 Total current assets	 3,598,841	 3,136,356
PROPERTY AND EQUIPMENT		
Buildings and leasehold improvements	3,137,685	3,020,651
Equipment	2,542,977	2,477,451
Construction in progress	<u>-</u>	<u>988</u>
	5,680,662	5,499,090
 Less accumulated depreciation and amortization	 <u>(2,458,080)</u>	 <u>(2,298,366)</u>
 Net property and equipment	 3,222,582	 3,200,724
DONATED USE OF BUILDINGS	3,340,683	3,978,875
BENEFICIAL INTEREST IN ASSETS HELD BY SANTA FE COMMUNITY FOUNDATION	<u>60,207</u>	<u>61,753</u>
 Total assets	 <u>\$ 10,222,313</u>	 <u>\$ 10,377,708</u>

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

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 355,629	\$ 312,932
Accrued payroll and related liabilities Incurred but not yet reported	764,752	633,409
self-insurance claims	166,521	67,416
Other liabilities	584	1,200
Deferred revenue	162,937	-
Health care risk pool	144,469	276,353
Long-term debt, current portion	92,912	63,138
Total current liabilities	1,687,804	1,354,448
 LONG-TERM DEBT, less current portion	 -	 93,259
Total liabilities	1,687,804	1,447,707
 COMMITMENTS AND CONTINGENCIES	 -	 -
 NET ASSETS		
Unrestricted	4,945,795	4,702,249
Unrestricted, board designated	150,000	150,000
Total unrestricted	5,095,795	4,852,249
Temporarily restricted	3,378,507	4,015,999
Permanently restricted	60,207	61,753
Total net assets	8,534,509	8,930,001
Total liabilities and net assets	\$ 10,222,313	\$ 10,377,708

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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Net patient service revenue, net of contractual allowance and discounts	\$ 5,270,399	\$ -	\$ -	\$ 5,270,399
Provision for doubtful accounts	<u>(8,253)</u>	<u>-</u>	<u>-</u>	<u>(8,253)</u>
Net patient service revenue less provision for doubtful accounts	5,262,146	-	-	5,262,146
Federal revenue	3,979,578	-	-	3,979,578
Other grants and contract revenue	2,686,836	-	-	2,686,836
In-kind revenue	293,638	-	-	293,638
Contribution revenue	705,267	17,411	-	722,678
Other	91,700	-	-	91,700
Total revenue and support	<u>13,019,165</u>	<u>17,411</u>	<u>-</u>	<u>13,036,576</u>
Net assets released from restrictions	654,903	(654,903)	-	-
OPERATING EXPENSES				
Salaries, wages, and employee benefits	9,660,316	-	-	9,660,316
Other operating expenses	1,151,448	-	-	1,151,448
In-kind expenses	929,273	-	-	929,273
Purchased services and professional fees	701,405	-	-	701,405
Medical supplies	583,657	-	-	583,657
Depreciation and amortization	379,402	-	-	379,402
Interest	14,610	-	-	14,610
Loss on disposal of property and equipment	<u>2,498</u>	<u>-</u>	<u>-</u>	<u>2,498</u>
Total operating expenses	<u>13,422,609</u>	<u>-</u>	<u>-</u>	<u>13,422,609</u>
CHANGES IN NET ASSETS FROM OPERATIONS	251,459	(637,492)	-	(386,033)
Return on investments, net of deductions	<u>(7,913)</u>	<u>-</u>	<u>(1,546)</u>	<u>(9,459)</u>
CHANGES IN NET ASSETS	243,546	(637,492)	(1,546)	(395,492)
Net assets, beginning of year	<u>4,852,249</u>	<u>4,015,999</u>	<u>61,753</u>	<u>8,930,001</u>
Net assets, end of year	<u>\$ 5,095,795</u>	<u>\$ 3,378,507</u>	<u>\$ 60,207</u>	<u>\$ 8,534,509</u>

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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Net patient service revenue, net of contractual allowances and discounts	\$ 5,863,890	\$ -	\$ -	\$ 5,863,890
Provision for doubtful accounts	(955,716)	-	-	(955,716)
Net patient service revenue less provision for doubtful accounts	4,908,174	-	-	4,908,174
Federal revenue	3,482,432	-	-	3,482,432
Other grants and contract revenue	2,969,282	-	-	2,969,282
In-kind revenue	238,309	-	-	238,309
Contribution revenue	189,218	21,338	-	210,556
Other	112,665	-	-	112,665
Total revenue and support	11,900,080	21,338	-	11,921,418
Net assets released from restrictions	638,193	(638,193)	-	-
OPERATING EXPENSES				
Salaries, wages, and employee benefits	8,446,047	-	-	8,446,047
Other operating expenses	1,066,064	-	-	1,066,064
In-kind expenses	869,337	-	-	869,337
Purchased services and professional fees	819,610	-	-	819,610
Medical supplies	422,858	-	-	422,858
Depreciation and amortization	351,899	-	-	351,899
Interest	13,856	-	-	13,856
Loss on disposal of property and equipment	1,794	-	-	1,794
Total operating expenses	11,991,465	-	-	11,991,465
CHANGES IN NET ASSETS FROM OPERATIONS	546,808	(616,855)	-	(70,047)
Return on investments, net of deductions	80,124	-	-	80,124
CHANGES IN NET ASSETS	626,932	(616,855)	-	10,077
Net assets, beginning of year	4,225,317	4,694,607	-	8,919,924
Restatement - Reclassification of assets held at Foundation	-	(61,753)	61,753	-
Net assets, end of year	<u>\$ 4,852,249</u>	<u>\$ 4,015,999</u>	<u>\$ 61,753</u>	<u>\$ 8,930,001</u>

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,

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (395,492)	\$ 10,077
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Unrealized loss (gain) on investments	24,261	(71,625)
Interest and dividends reinvested	(16,348)	(8,499)
Depreciation and amortization	379,402	351,899
Loss on disposal of property and equipment	2,498	1,794
Amortization of donated use of buildings	638,193	638,193
Incurred but not yet reported self-insurance claims	99,104	13,324
Change in allowance for doubtful accounts	(59,833)	(64,518)
Change in beneficial interest in assets held by Santa Fe Community Foundation	1,546	(5,471)
Change in operating assets and liabilities:		
Patients accounts receivable	(6,259)	273,336
Grant and contract receivables	359,162	(480,272)
Estimated amounts due from third-party payors	7,000	-
Prepaid expenses	(8,391)	(3,701)
Medical supply inventory	6,037	(31,134)
Accounts payable	42,697	(130,603)
Accrued payroll and related liabilities and other liabilities	130,727	66,321
Health care risk pool	(131,884)	150,837
Deferred revenue	162,937	(63,750)
Net cash provided by operating activities	<u>1,235,357</u>	<u>646,208</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(403,758)	(316,902)
Proceeds from sales of investments	105,179	40
Purchases of investments	(105,179)	(40)
Net cash used in investing activities	<u>(403,758)</u>	<u>(316,902)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(63,485)	(67,822)
Net cash used in financing activities	<u>(63,485)</u>	<u>(67,822)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	768,114	261,484
Cash and cash equivalents, beginning of year	<u>747,398</u>	<u>485,914</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,515,512</u></u>	<u><u>\$ 747,398</u></u>

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,

Increase (Decrease) in Cash and Cash Equivalents

SUPPLEMENTAL CASH FLOW DATA

	<u>2015</u>	<u>2014</u>
In-kind revenues	\$ 293,638	\$ 238,309
In-kind expenses	291,080	252,482
Interest paid in cash	14,610	13,856

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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, 2015 and 2014. 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, 2015 and 2014. Under the statute of limitations, the Center's tax returns are no longer subject to examination by tax authorities for years prior to 2012.

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:

Unrestricted net assets – represents net assets that are not subject to donor-imposed stipulations. Unrestricted net assets in the amount of \$150,000 have been designated by the Board as an available reserve for the Center's self-insured health plan. See Note I.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Financial Statement Presentation – Continued

Permanently restricted net assets – represents net assets subject to donor-imposed stipulations that must be maintained permanently by the Center. The Center had permanent investment assets held at a community foundation.

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. Currently the Federal Deposit Insurance Corporation (FDIC) insurance on cash balances is \$250,000 per financial institution. Account balances at financial 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.

7. Receivables

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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 payors 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 HRSA 330 and 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Construction projects have been substantially completed. No interest was capitalized on the construction-in-progress during June 30, 2015 and 2014.

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

At June 30, 2015, the Center had deferred the recognition of revenue related to grant funding received in advance of the related cost expenditures. Included in deferred revenue were amounts received from the U.S. Department of Health and Human Services for payroll expenditures not yet disbursed at the time of receipt of grant funds.

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 expectation of payment, or payments at less than its established rates, to patients meeting certain criteria under its charity care policy.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

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. These deductions from the established rates are reported in the financial statements as a deduction of revenue through contractual adjustment.

Homeless Charity Write-Off

The Center provides care to patients who meet federal homeless criteria. These charges are 100% written off and reported in the financial statements as a deduction of revenue. The Center's criteria define these deductions as charity write-offs through contractual adjustment.

Charity Write-Off

The Center has many patients who have unpaid balances after sliding fee scale discounts and other sponsored funding. These patients may have met certain criteria under programs that define them as indigent either before the date of the service or since the date of service. If they have met the criteria of indigent under those circumstances, write-offs of those balances are defined as charity write-offs instead of bad debt. These additional deductions are reported in the financial statements as a deduction from net service revenue.

The charity care provided under these criteria consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Amounts discounted under federal sliding fee scale	\$ 840,631	\$ 1,112,000
Amounts discounted for homeless patients	65,820	185,000
Charity write-offs of patients determined to be indigent using other guidelines	<u>302,804</u>	<u>438,400</u>
Total charity care adjustments and reductions of net service revenue	<u>\$ 1,209,255</u>	<u>\$ 1,735,400</u>

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, and the deduction provision for doubtful accounts recognized by major payor sources is as follows:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED11. Revenue Recognition – Continued

	June 30, 2015		
	<u>Third Party Payor</u>	<u>Self-Pay</u>	<u>Total</u>
Net patient service revenue	\$ 4,312,840	\$ 957,559	\$ 5,270,399
Provision for doubtful accounts	<u>(3,466)</u>	<u>(4,787)</u>	<u>(8,253)</u>
	<u>\$ 4,309,374</u>	<u>\$ 952,772</u>	<u>\$ 5,262,146</u>
	June 30, 2014		
	<u>Third Party Payor</u>	<u>Self-Pay</u>	<u>Total</u>
Net patient service revenue	\$ 4,740,597	\$ 1,123,293	\$ 5,863,890
Provision for doubtful accounts	<u>(458,744)</u>	<u>(496,972)</u>	<u>(955,716)</u>
	<u>\$ 4,281,853</u>	<u>\$ 626,321</u>	<u>\$ 4,908,174</u>

In 2014, the Center recognized a one-time bad debt charge to net patient revenue for a comprehensive write-off of uncollectible accounts.

The allowance for doubtful accounts is allocated as follows:

	<u>Third Party Payor</u>	<u>Self-Pay</u>	<u>Total</u>
June 30, 2015	\$ 163,029	\$ 232,876	\$ 395,905
June 30, 2014	\$ 347,095	\$ 108,643	\$ 455,738

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Advertising Costs

The Center expenses advertising costs as incurred. Advertising and marketing costs totaled \$17,079 and \$11,382 for the years ended June 30, 2015 and 2014, 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 possessing 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 in-kind services of \$1,250 and \$0 recorded for 2015 and 2014. Contributed goods consist primarily of medical supplies and are recorded at the value established by the donor.

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. 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	Santa Fe Community College Donated Use of Building	Total
Reported balance June 30, 2014	\$ 2,999,830	\$ 562,212	\$ 416,834	\$ 3,978,876
Amortization of fair value of donated use of building	<u>(499,971)</u>	<u>(56,222)</u>	<u>(82,000)</u>	<u>(638,193)</u>
Reported balance June 30, 2015	<u>\$ 2,499,859</u>	<u>\$ 505,990</u>	<u>\$ 334,834</u>	<u>\$ 3,340,683</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED16. 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. Subsequent Events

Subsequent events have been evaluated through January 5, 2016, 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, 2015. In September 2015, the Center paid off their loan in the amount of \$92,212 to Bank of America. The payoff released security liens on assets of the Center. During August 2015, the Center transferred \$800,000 from savings to short term investments to increase investment earnings from these sources. Management does not believe any other 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:

	2015	2014
	<u>Fair Value</u>	<u>Fair Value</u>
Corporate bonds-Global and U.S. Fixed Income	\$ 329,976	\$ 316,031
International HBTM	124,802	117,455
U.S. HBTM Fund	70,274	88,318
International Small Co. Fund	58,195	61,396
U.S. Market Fund	57,611	54,238
U.S. Small Company Fund	42,778	40,815
Emerging Markets Fund	20,776	23,751
Real Estate Securities Fund	16,433	15,936
Money Market Funds	2,683	13,501
	<u>\$ 723,528</u>	<u>\$ 731,441</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE B – INVESTMENTS – CONTINUED

Investment return at June 30 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 16,348	\$ 8,499
Unrealized (loss) gain	(19,563)	76,174
Investment fees	<u>(4,698)</u>	<u>(4,549)</u>
Total investment (loss) return	<u>\$ (7,913)</u>	<u>\$ 80,124</u>

NOTE C – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Medicaid	\$ 282,996	\$ 470,016
Medicare	111,021	132,186
Private insurance	89,725	66,493
Special contracts	156,347	33,694
Patient and other	<u>441,289</u>	<u>372,730</u>
	1,081,378	1,075,119
Less allowance for doubtful accounts	<u>(395,905)</u>	<u>(455,738)</u>
Patients accounts receivable, net	<u>\$ 685,473</u>	<u>\$ 619,381</u>

NOTE D – MEDICAL SUPPLY INVENTORY

Medical supply inventory consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Medical, dental, and other supplies	\$ 56,557	\$ 64,480
Pharmacy supplies	<u>28,151</u>	<u>26,265</u>
Balance at end of year	<u>\$ 84,708</u>	<u>\$ 90,745</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE E – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 ASC, 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, and are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the 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.

The following is a description of methodologies used for assets recorded at fair value:

Money Market Funds: are recorded at net realizable value of outstanding balances.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE E – FAIR VALUE MEASUREMENTS – CONTINUED

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 based on ownership percentage of pooled investments.

Assets at Fair Value as of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 390,869	\$ -	\$ -	\$ 390,869
Bond funds	329,976	-	-	329,976
Beneficial interest in assets held by Santa Fe Community Foundation	-	60,207	-	60,207
Money market funds	<u>2,683</u>	<u>-</u>	<u>-</u>	<u>2,683</u>
Total assets at fair value	<u>\$ 723,528</u>	<u>\$ 60,207</u>	<u>\$ -</u>	<u>\$ 783,735</u>

Assets at Fair Value as of June 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 401,909	\$ -	\$ -	\$ 401,909
Bond funds	316,031	-	-	316,031
Beneficial interest in assets held by Santa Fe Community Foundation	-	61,753	-	61,753
Money market funds	<u>13,501</u>	<u>-</u>	<u>-</u>	<u>13,501</u>
Total assets at fair value	<u>\$ 731,441</u>	<u>\$ 61,753</u>	<u>\$ -</u>	<u>\$ 793,194</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE F – LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</u>
A note payable to a local bank at prime rate plus 2% (5.25% at June 30, 2015 and 2014); secured by substantially all assets of the Center; due in monthly payments of \$5,000 including interest through May 2017.	\$ 92,912	\$ 146,570
Note payable to New Mexico Finance Authority at 3.00%; due August 2015; 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.	<u>-</u>	<u>9,827</u>
Total long-term debt	92,912	156,397
Less current portion	<u>(92,912)</u>	<u>(63,138)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 93,259</u>

Maturities of long-term debt at June 30, 2015 are as follows:

Year Ending June 30,

2016	<u>\$ 92,912</u>
	<u>\$ 92,912</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

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, 2015, were:

Year Ending June 30,		
2016		\$ 16,634
2017		514
		<u>17,148</u>
		<u>\$ 17,148</u>

Rental expense for all operating leases was \$72,939 and \$69,014 for the years ended June 30, 2015 and 2014, respectively.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Donated use of buildings	\$ 3,340,682	\$ 3,978,875
Diabetes / obesity program	34,819	20,597
Dental	2,000	11,400
Miscellaneous	1,006	5,127
	<u>\$ 3,378,507</u>	<u>\$ 4,015,999</u>

Net assets released from restrictions at June 30 related to:

	<u>2015</u>	<u>2014</u>
Donated use of buildings	\$ 638,193	\$ 638,193
Dental	9,400	-
Miscellaneous	7,310	-
	<u>\$ 654,903</u>	<u>\$ 638,193</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE I – SELF-FUNDED HEALTH INSURANCE

The Center has a self-insured health plan for its employees. A third-party administrator handles claims and records. The Center has a \$40,000 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 reported as of year-end as of June 30, 2015 and 2014, totaled \$166,521 and \$67,416, 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, 2015 and 2014, the Center contributed \$115,267 and \$106,146, respectively, towards the Plan.

NOTE K – FUNCTIONAL ALLOCATION OF EXPENSES

Total operating expenses were allocated to functions as follows at June 30:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 11,818,893	\$ 10,469,014
General and administrative	1,499,848	1,408,419
Fundraising	<u>103,868</u>	<u>114,032</u>
	<u>\$ 13,422,609</u>	<u>\$ 11,991,465</u>

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE M – ECONOMIC DEPENDENCE

During the fiscal years ended June 30, 2015 and 2014, 17% and 16% respectively of the Centers' revenues were from the Medicaid program for patient services rendered, which renews annually. The complete loss of this contract could have a significant impact on the Center.

In addition, during the fiscal years ended June 30, 2015 and 2014, the Center received approximately 31% and 29% respectively 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, 2015.

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. There are no outstanding claims and the Center has not experienced any losses from claims for the year ending June 30, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015 and 2014

NOTE O – NEW ACCOUNTING STANDARD

The FASB has recently issued Accounting Standards Update (ASU) 2014-09, (*Topic 606*): *Revenue from Contracts with Customers* that was designed to develop a common revenue standard for U.S. GAAP and international standards. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Steps to apply the core principle are as follows:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Several new disclosures will also be required to include sufficient information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for annual periods beginning after December 15, 2018.

As of the date of these financial statements, management has not determined the impact this new ASU will have on future reporting periods. Revenue recognition for health care entities varies in certain aspects from revenue recognition for organizations in other industries.

NOTE P – RESTATEMENT–RECLASSIFICATION OF ASSETS HELD AT FOUNDATION

The Center reclassified its assets held at Santa Fe Community Foundation (Foundation) from temporarily restricted to permanently restricted effective for fiscal year 2014. The change was made to better reflect the character of the agreement with the Foundation. The original contribution of assets to the Foundation was irrevocable and variance power was granted to the Foundation. Income and gains increase the investment balance, whereas losses, distributions and fees decrease the overall investment amount. There was no effect on previously recorded total income or net assets from the reclassification.

**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, 2015

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	H80CS00606	93.224	\$ 1,928,046
Consolidated Health Centers	H80CS00606	93.224	321,515
Consolidated Health Centers	H80CS00606	93.527	<u>1,730,017</u>
Total Consolidated Health Centers			3,979,578
Total U.S. Department of Health and Human Services			<u>\$ 3,979,578</u>

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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**INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of La Familia Medical Center (the Center) (a non-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2016.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in

internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2015-001).

Compliance and Other Matters

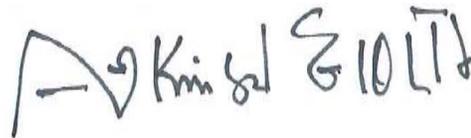
As part of obtaining reasonable assurance about whether La Familia Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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's Response to Finding

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish at the end.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 5, 2016



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

Board of Directors
La Familia Medical Center

Report on Compliance for Each Major Federal Program

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, 2015. La Familia Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of La Familia Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of La Familia Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, La Familia Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

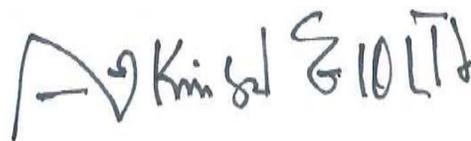
Report on Internal Control over Compliance

Management of La Familia Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered La Familia Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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. However, material weaknesses may exist that have not been identified.

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



Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 5, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? No

Significant deficiency identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? None

Identification of Major Programs:

CFDA Numbers

Name of Federal Program

93.224 Consolidated Health Centers

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, 2015

FINANCIAL STATEMENT FINDINGS REQUIRED BY GOVERNMENT AUDITING STANDARDS

2015-001 Approval of Adjusting Entries (Significant Deficiency)

CONDITION:

There is currently a lack of review of journal entries recorded by the Finance Director. This task was previously performed by the prior CEO, but is not currently being performed.

CRITERIA:

2 CFR 200 incorporates the Committee of Sponsoring Organizations (COSO) framework as recommended practice. One of the elements of COSO is monitoring procedures which, in this case, would specify review and approval of adjustments made by the Finance Director.

CAUSE:

A change in top management changed the review procedures formerly in place.

EFFECT:

The Organization does not currently have the monitoring procedures in place in relation to ledger adjustments.

RECOMMENDATION:

Atkinson recommends that someone on the Board of Directors with financial knowledge regularly review journal entries recorded by the Finance Director, in order to provide an important second level of review. Documented approval of the bank reconciliation is also suggested.

RESPONSIBLE OFFICIAL'S VIEW:

Management concurs that proper oversight of reconciliations and journal entries should be routinely conducted by one with adequate education and experience. Until someone with these skills independent of the accountant is available in-house, the chairperson of the finance committee will conduct these reviews.

La Familia Medical Center

IDENTIFICATION OF AUDIT PRINCIPAL

June 30, 2015

Audit Principal:	<u>Martin E. Mathisen, CPA, CGFM</u>
Name and address of independent accounting firm:	<u>Atkinson & Co., Ltd.</u> <u>6501 Americas Parkway NE</u> <u>Suite 700</u> <u>Albuquerque, New Mexico 87110</u>
Audit period:	<u>Year ended June 30, 2015</u>
Telephone Number:	<u>(505) 843-6492</u>
Federal Employee ID Number:	<u>85-0211867</u>

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