FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

LA FAMILIA MEDICAL CENTER

June 30, 2011 and 2010

atkinson

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
La Familia Medical Center

We have audited the accompanying statement of financial position of La Familia Medical Center (the Center) as of June 30, 2011, and the related statements of activities and changes in net assets, and cash flows for the year 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 audit. The financial statements of La Familia Medical Center as of June 30, 2010, were audited by other auditors whose report dated November 30, 2010, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of La Familia Medical Center as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011, 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 2011 financial statements. The 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 basic 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 basic 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.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 24, 2011

La Familia Medical Center

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 1,072,976	$ 596,238
Short-term investments	628,848	532,651
Patient accounts receivable, net of allowance of $607,989 in 2011 and $481,205 in 2010	809,812	490,454
Grant and contract receivables	254,907	313,199
Estimated amounts due from third-party payers	30,000	33,298
Medical supply inventory	177,087	61,989
Total current assets	2,973,630	2,027,829
PROPERTY AND EQUIPMENT		
Equipment	2,467,317	1,401,788
Buildings and leasehold improvements	2,194,956	862,677
Construction in progress	37,197	27,372
	4,699,470	2,291,837
Less accumulated depreciation	(2,193,096)	(802,121)
Net property and equipment	2,506,374	1,489,716
DONATED USE OF BUILDING	2,261,551	2,512,834
BENEFICIAL INTEREST IN ASSETS HELD BY SANTA FE COMMUNITY FOUNDATION	56,244	50,276
Total assets	$ 7,797,799	$ 6,080,655

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts payable	$ 234,582	$ 319,856
Accrued payroll and related liabilities	566,095	535,443
Incurred but not yet reported self insurance claims	63,233	71,819
Deferred revenue	213,936	-
Long-term debt, current portion	300,682	23,682
Total current liabilities	1,378,528	950,800
LONG-TERM DEBT, less current portion	34,219	331,099
Total liabilities	1,412,747	1,281,899
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted, undesignated	3,968,679	2,103,743
Unrestricted, board designated	150,000	150,000
Total unrestricted	4,118,679	2,253,743
Temporarily restricted	2,266,373	2,545,013
Total net assets	6,385,052	4,798,756
Total liabilities and net assets	$ 7,797,799	$ 6,080,655

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, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Federal revenue	$ 4,634,781	$ -	$ 4,634,781
Net patient service revenue	4,415,207	-	4,415,207
Other grants and contract revenue	2,749,337	-	2,749,337
Contribution revenue	384,727	-	384,727
In-kind revenue	47,122	-	47,122
Other	22,863	-	22,863
Net assets released from restrictions	278,640	(278,640)	-
Total revenue and support	12,532,677	(278,640)	12,254,037
OPERATING EXPENSES			
Salaries, wages, and employee benefits	7,591,226	-	7,591,226
Other operating expenses	1,201,502	-	1,201,502
Purchased services and professional fees	719,404	-	719,404
Medical supplies	460,711	-	460,711
Provision for uncollectible accounts	437,491	-	437,491
Depreciation and amortization	291,001	-	291,001
In-kind expenses	47,122	-	47,122
Interest	20,638	-	20,638
Loss on disposal of property and equipment	6,087	-	6,087
Total operating expenses	10,775,182	-	10,775,182
CHANGES IN NET ASSETS FROM OPERATIONS	1,757,495	(278,640)	1,478,855
Net realized/unrealized gains on investments	107,441	-	107,441
CHANGES IN NET ASSETS	1,864,936	(278,640)	1,586,296
Net assets, beginning of year	2,253,743	2,545,013	4,798,756
Net assets, end of year	$ 4,118,679	$ 2,266,373	$ 6,385,052

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED

For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Net patient service revenue	$ 4,541,839	$ -	$ 4,541,839
Federal revenue	3,120,217	-	3,120,217
Other grants and contract revenue	3,100,474	-	3,100,474
Contribution revenue	129,569	40,000	169,569
In-kind revenue	47,122	-	47,122
Other	10,386	-	10,386
Net assets released from restrictions	211,838	(211,838)	-
Total revenue and support	11,161,445	(171,838)	10,989,607
OPERATING EXPENSES			
Salaries, wages, and employee benefits	7,547,619	-	7,547,619
Other operating expenses	1,156,505	-	1,156,505
Purchased services and professional fees	676,604	-	676,604
Medical supplies	514,581	-	514,581
Provision for uncollectible accounts	488,286	-	488,286
Depreciation and amortization	116,259	-	116,259
In-kind expenses	47,122	-	47,122
Interest	22,009	-	22,009
Loss on disposal of property and equipment	21,402	-	21,402
Total operating expenses	10,590,387	-	10,590,387
CHANGES IN NET ASSETS FROM OPERATIONS	571,058	(171,838)	399,220
Net realized/unrealized gains on investments	54,364	-	54,364
CHANGES IN NET ASSETS	625,422	(171,838)	453,584
Net assets, beginning of year	1,628,321	2,716,851	4,345,172
Net assets, end of year	$ 2,253,743	$ 2,545,013	$ 4,798,756

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,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 1,586,296	$ 453,584
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Unrealized gains on investments	(96,197)	(50,414)
Depreciation and amortization	291,001	116,259
Loss on disposal of property and equipment	6,087	21,402
Provision for uncollectible accounts	437,491	488,286
Donated use of building	251,283	251,283
Change in beneficial interest in assets held by Santa Fe Community Foundation	(5,968)	(3,339)
Change in other assets and liabilities:		
Patients accounts receivable	(756,849)	(354,119)
Grant and contract receivables	58,292	66,469
Estimated amounts due from third-party payers	3,298	(80,009)
Medical supply inventory	(115,098)	20,600
Accounts payable	(85,274)	(466,791)
Accrued payroll and related liabilities	30,652	25,099
Incurred but not yet reported self insurance claims	(8,586)	11,111
Deferred revenue	213,936	-
Net cash provided by operating activities	1,810,364	499,421
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,313,746)	(103,681)
Net cash used in investing activities	(1,313,746)	(103,681)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(19,880)	(9,717)
Net cash used in financing activities	(19,880)	(9,717)
NET INCREASE IN CASH AND CASH EQUIVALENTS	476,738	386,023
Cash and cash equivalents, beginning of year	596,238	210,215
Cash and cash equivalents, end of year	$ 1,072,976	$ 596,238

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

La Familia Medical Center

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30,

SUPPLEMENTAL CASH FLOW DATA

	2011	2010
In-kind revenues	$ 47,122	$ 47,122
In-kind expenses	47,122	47,122
Interest paid in cash	20,638	22,009

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 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.

On July 1, 2009, the Center adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Accounting for Income Taxes*. There were no uncertain tax positions taken by the Center for the period ended June 30, 2011. The Center's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. Under the statute of limitations, the Center's tax returns are no longer subject to examination by tax authorities for years prior to 2008.

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 bad debts.

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, 2011 or 2010.

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 market 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 their 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, 2011 and 2010.

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, 2011, the Center had deferred the recognition of certain revenues related to private grants for funding received in advance of the related cost expenditures. Revenue is recorded when all requirements are met, including timing restrictions, if any.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. 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, 2011 and 2010 was approximately $1,839,000 and $1,323,000, respectively.

12. Revenue Recognition

Net patient service revenue

The Center is approved as a Federally Qualified Health Center (FQCH) 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 as received.

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.

13. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Advertising Costs

The Center expenses advertising costs as incurred. Advertising and marketing costs totaled $34,515 and $23,219 for the years ended June 30, 2011 and 2010, respectively, and are reported in other operating expenses.

15. Functional Allocation of Expenses

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

16. Donated Building 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. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

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 the premises to the Center and charges $1 per year. Both donations of building are for 25 years with an option to renew for a second 25 year period. The leases are cancelable upon certain notice. The Center has recorded the long-term use of this property as a contribution receivable at estimated fair value. The fair value of the donated use of building 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.

17. 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 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

18. Reclassifications

Certain reclassifications have been made to the June 30, 2010 financial statement presentation to correspond to the current year's format. The principal reclassification was to record donated use building obligations for amounts previously recorded as building. Net assets and changes in net assets are unchanged due to these reclassifications.

19. Subsequent Events

Subsequent events have been evaluated through October 24, 2011, 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, 2011. See Note P for subsequent events.

NOTE B – INVESTMENTS

Investments are stated at fair value and consist of the following at June 30, 2011:

	Cost	Fair Value	Unrealized (Loss) Gain
Money market funds	$ 12,988	$ 12,988	$ -
Corporate bonds	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:

	2011	2010
Interest and dividend income	$ 5,276	$ 611
Change in beneficial interest in assets held by Santa Fe Community Foundation	5,968	3,339
Unrealized gains, net	96,197	50,414
Total investment return	$ 107,441	$ 54,364

NOTE C – PATIENT ACCOUNTS RECEIVABLES

Patient accounts receivables consisted of the following at June 30:

	2011	2010
Medicaid	$ 441,428	$ 283,763
Medicare	195,115	104,054
Private insurance	113,586	62,327
Special contracts	103,267	151,625
Patient and other	564,405	369,890
	1,417,801	971,659
Less allowance for doubtful accounts	(607,989)	(481,205)
Patients accounts receivable, net	$ 809,812	$ 490,454

NOTE D – MEDICAL SUPPLY INVENTORY

Inventory consisted of the following at June 30:

	2011	2010
Pharmacy supplies	$ 29,415	$ 30,352
Medical, dental, and other supplies	147,672	31,637
Balance at end of year	$ 177,087	$ 61,989

NOTE E – BENEFICIAL INTEREST IN ASSETS OF SANTA FE COMMUNITY FOUNDATION

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

NOTE F – 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 inputs 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 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).

NOTE F – FAIR VALUE MEASUREMENTS – CONTINUED

Cash and Cash Equivalents, Short-term Financial Investments, Accounts Receivable, Accounts Payable Incurred but not yet Reported, Self Insurance Claims, and Short-term Borrowings approximate fair value because of short maturity of these instruments.

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.

Donated Use of Building: is recorded at amortized fair value of the contribution.

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, 2011

	Level 1	Level 2	Level 3	Total
Bond funds	$ 297,436	$ -	$ -	$ 297,436
Equity funds	331,412	-	-	331,412
Donated use of building	-	2,261,551	-	2,261,551
Beneficial interest in assets held by Santa Fe Community Foundation	-	56,244	-	56,244
Total assets at fair value	$ 628,848	$ 2,317,795	$ -	$ 2,946,643

Assets at Fair Value as of June 30, 2010

	Level 1	Level 2	Level 3	Total
Bond funds	$ 236,767	$ -	$ -	$ 236,767
Equity funds	295,884	-	-	295,884
Donated use of building	-	2,512,834	-	2,512,834
Beneficial interest in assets held by Santa Fe Community Foundation	-	50,276	-	50,276
Total assets at fair value	$ 532,651	$ 2,563,110	$ -	$ 3,095,761

NOTE G – LONG-TERM DEBT

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

	2011	2010
A note payable to a local bank at prime rate plus 2% (5.25% at June 30, 2011); secured by substantially all assets of the Center; due in monthly payments of $2,600 including interest. Due October 31, 2011. Refinanced. (See Note P.)	$ 289,836	$ 300,000
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.	45,065	54,781
Total long-term debt	334,901	354,781
Less current portion	(300,682)	(23,682)
Long-term portion	$ 34,219	$ 331,099

Maturities of long-term debt at June 30, 2011 are as follows:

2012	$ 300,682
2013	11,142
2014	11,506
2015	11,571
	$ 334,901

NOTE H – LEASES

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

Future minimum lease payments at June 30, 2011 were:

2012	$ 48,941

Rental expense for all operating leases was $59,111 and $73,242 for the years ended June 30, 2011 and 2010, respectively.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

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

	2011	2010
Donated use of building and land	$ 2,261,551	$ 2,512,834
Salazar partnership grant	4,822	32,179
	$ 2,266,373	$ 2,545,013

Net assets released from restrictions at June 30 related to:

	2011	2010
Donated use of building	$ 251,283	$ 182,428
Salazar partnership grant	27,357	29,410
	$ 278,640	$ 211,838

NOTE J – 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, 2011 and 2010 totaled $63,233 and $71,819, respectively.

NOTE K – 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, 2011 and 2010, the Center contributed $89,979 and $96,601 towards the Plan, respectively.

NOTE L – RELATED PARTY TRANSACTIONS

One of the members of the Center's Board of Directors is a partner in a law firm that the Center obtained legal services from. The Center made payments of approximately $2,600 and $3,500 to the law firm during June 30, 2011 and 2010, respectively.

NOTE M – FUNCTIONAL ALLOCATION OF EXPENSES

	2011	2010
Health care services	$ 9,551,060	$ 9,192,262
General and administrative	1,161,783	1,359,600
Fundraising	62,339	38,525
	$ 10,775,182	$ 10,590,387

NOTE N – 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 O – ECONOMIC DEPENDENCE

During the fiscal year ended June 30, 2011, the Center received approximately 15% 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, 2011, the Center received approximately 25% 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.

During the fiscal year ended June 30, 2011, the Center received approximately 12% of its revenues from The U.S. Department of Health and Human Services ARRA grant, which relate to a Capital Improvement Program, Facility Investment Program, and Increase to Services. Loss of this grant is not expected to significantly impact the Center, in that these are one time grants primarily for facilities improvement.

NOTE P – 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, 2011.

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.

NOTE P – COMMITMENTS AND CONTINGENCIES – CONTINUED

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, 2012.

Subsequent events

The Center reached a tentative agreement to refinance the note described in note G. As of the report date, the final execution of the refinance agreement has not yet been signed by the parties.

SCHEDULES AND REPORTS REQUIRED BY OMB CIRCULAR A-133

La Familia Medical Center

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

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	$ 737,679
Consolidated Health Centers	5 H80 CS00606-09-00	93.224	2,322,189
Total Consolidated Health Centers			3,059,868
National Center for Chronic Disease Prevention and Health Promotion	1 H75 DP0030 16-01	93.998	64,532
ARRA - IDS to Health Centers Grant	1 H8B CS12056-01-00	93.703	198,116
ARRA - FIP	1 C80 CS17069-01-00	93.703	1,199,246
ARRA - CIP	6 C81 CS14077-01-02	93.703	113,019
Total ARRA			1,510,381
Total U.S. Department of Health and Human Services			$ 4,634,781

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, 2011, and have issued our report thereon dated October 24, 2011. 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*.

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.

Albuquerque, New Mexico
October 24, 2011

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INDEPENDENT AUDITOR'S 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, 2011. 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, 2011.

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.

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.

Albuquerque, New Mexico
October 24, 2011

La Familia Medical Center

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2011

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?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
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
93.703	ARRA – IDS to Health Center Grant
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, 2011

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, 2011

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, 2011
Telephone Number:	(505) 843-6492
Federal Employee ID Number:	85-0211867

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