LA FAMILIA MEDICAL CENTER

FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014 and 2013

atkinson

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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, 2014 and 2013, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2014 and 2013, 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 November 24, 2014, 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.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 24, 2014

La Familia Medical Center

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 747,398	$ 485,914
Short-term investments	731,441	651,317
Patient accounts receivable, net of allowance for doubtful accounts of $455,738 in 2014 and $520,256 in 2013	619,381	828,199
Grant and contract receivables	890,292	410,020
Estimated amounts due from third-party payers	20,000	20,000
Prepaid expenses	37,099	33,398
Medical supply inventory	90,745	59,611
Total current assets	3,136,356	2,488,459
PROPERTY AND EQUIPMENT		
Buildings and leasehold improvements	3,020,651	2,810,401
Equipment	2,477,451	2,375,722
Construction in progress	988	6,700
	5,499,090	5,192,823
Less accumulated depreciation and amortization	(2,298,366)	(1,955,308)
Net property and equipment	3,200,724	3,237,515
DONATED USE OF BUILDINGS	3,978,875	4,617,068
BENEFICIAL INTEREST IN ASSETS HELD BY SANTA FE COMMUNITY FOUNDATION	61,753	56,282
Total assets	$ 10,377,708	$ 10,399,324

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

LIABILITIES AND NET ASSETS

		2014		2013
CURRENT LIABILITIES				
Accounts payable	$	312,932	$	443,535
Accrued payroll and related liabilities		633,409		568,288
Incurred but not yet reported self insurance claims		67,416		54,092
Other liabilities		1,200		-
Deferred revenue		-		63,750
Health care risk pool		276,353		125,516
Long-term debt, current portion		63,138		54,170
Total current liabilities		1,354,448		1,309,351
LONG-TERM DEBT, less current portion		93,259		170,049
Total liabilities		1,447,707		1,479,400
COMMITMENTS AND CONTINGENCIES		-		-
NET ASSETS				
Unrestricted		4,702,249		4,075,317
Unrestricted, board designated		150,000		150,000
Total unrestricted		4,852,249		4,225,317
Temporarily restricted		4,077,752		4,694,607
Total net assets		8,930,001		8,919,924
Total liabilities and net assets	$	10,377,708	$	10,399,324

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, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Net patient service revenue, net of contractual allowance 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
Net assets released from restrictions	638,193	(638,193)	-
Total revenue and support	12,538,273	(616,855)	11,921,418
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	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
Net assets, end of year	$ 4,852,249	$ 4,077,752	$ 8,930,001

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, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Net patient service revenue, net of contractual allowances and discounts	$ 5,058,306	$ -	$ 5,058,306
Provision for doubtful accounts	(606,973)	-	(606,973)
Net patient service revenue less provision for doubtful accounts	4,451,333	-	4,451,333
Federal revenue	3,136,773	-	3,136,773
Other grants and contract revenue	2,780,395	-	2,780,395
In-kind revenue	256,066	-	256,066
Contribution revenue	189,172	5,343	194,515
Other	112,669	-	112,669
Net assets released from restrictions	674,578	(674,578)	-
Total revenue and support	11,600,986	(669,235)	10,931,751
OPERATING EXPENSES			
Salaries, wages, and employee benefits	8,291,448	-	8,291,448
Other operating expenses	1,126,719	-	1,126,719
In-kind expenses	883,644	-	883,644
Purchased services and professional fees	719,763	-	719,763
Medical supplies	465,491	-	465,491
Depreciation and amortization	369,331	-	369,331
Interest	13,615	-	13,615
Loss on disposal of property and equipment	5,099	-	5,099
Total operating expenses	11,875,110	-	11,875,110
CHANGES IN NET ASSETS FROM OPERATIONS	(274,124)	(669,235)	(943,359)
Return on investments	56,782	-	56,782
CHANGES IN NET ASSETS	(217,342)	(669,235)	(886,577)
Net assets, beginning of year	4,442,659	5,363,842	9,806,501
Net assets, end of year	$ 4,225,317	$ 4,694,607	$ 8,919,924

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 10,077	$ (886,577)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Unrealized (gain) on investments	(71,625)	(45,807)
Interest and dividends reinvested	(8,499)	(10,975)
Depreciation and amortization	351,899	369,331
Loss on disposal of property and equipment	1,794	5,099
Amortization of donated use of buildings	638,193	638,157
Change in beneficial interest in assets held by Santa Fe Community Foundation	(5,471)	(1,712)
Change in operating assets and liabilities:		
Patients accounts receivable	208,818	(410,275)
Grant and contract receivables	(480,272)	(62,865)
Prepaid expense	(3,701)	(7,313)
Medical supply inventory	(31,134)	64,770
Accounts payable	(130,603)	240,105
Accrued payroll and related liabilities and other liabilities	66,321	(36,103)
Incurred but not yet reported self insurance claims	13,324	26,648
Health care risk pool	150,837	115,150
Deferred revenue	(63,750)	(416,203)
Net cash provided by (used in) operating activities	646,208	(418,570)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(316,902)	(220,126)
Net cash used in investing activities	(316,902)	(220,126)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(67,822)	(66,250)
Net cash used in financing activities	(67,822)	(66,250)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	261,484	(704,946)
Cash and cash equivalents, beginning of year	485,914	1,190,860
Cash and cash equivalents, end of year	$ 747,398	$ 485,914

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

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

SUPPLEMENTAL CASH FLOW DATA

	2014	2013
In-kind revenues	$ 238,309	$ 256,066
In-kind expenses	869,337	883,644
Interest paid in cash	13,856	13,615

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, 2014 and 2013. 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, 2014 and 2013. Under the statute of limitations, the Center's tax returns are no longer subject to examination by tax authorities for years prior to 2011.

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.

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 no permanently restricted net assets at June 30, 2014 or 2013.

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 payers, patients, and others. The Center provides for an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Center bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. No collateral is secured on receivables for medical services. No individual can be denied medical treatment based on the terms of the Center's 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.

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 has been capitalized on the construction-in-progress during June 30, 2014 and 2013.

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

In the prior fiscal year the Center had deferred the recognition of certain revenues related to private grants for funding received in advance of the related cost expenditures. Included in deferred revenue were amounts received in relation to Medicaid incentive payments for meaningful use of electronic records. The revenue was recorded in the current period after all requirements had been met. As of June 30, 2014, there was no deferred revenue.

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

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 off 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 had 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 off of those balances are defined as charity write off instead of bad debt. These additional deductions are reported in the financial statements as a deduction from net service revenue as provision for bad debt.

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

	2014	2013
Amounts discounted under federal sliding fee scale	$ 1,112,000	$ 1,275,000
Amounts discounted for homeless patients	210,000	185,000
Charity write off of patients determined to be indigent using other guidelines	438,400	Not separately monitored
Total charity care adjustments and write-offs	$ 1,760,400	$ 1,460,000

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.

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 then deduction provision for doubtful accounts recognized by major payor sources is as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

	June 30, 2014		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 4,740,597	$ 1,123,293	$ 5,863,890
Provision for doubtful accounts	(458,744)	(496,972)	(955,716)
	$ 4,281,853	$ 626,321	$ 4,908,174

	June 30, 2013		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 4,014,995	$ 1,043,311	$ 5,058,306
Provision for doubtful accounts	(291,347)	(315,626)	(606,973)
	$ 3,723,648	$ 727,685	$ 4,451,333

The allowance for doubtful accounts is allocated as follows:

	Third Party Payor	Self-Pay	Total
June 30, 2014	$ 347,095	$ 108,643	$ 455,738
June 30, 2013	$ 248,675	$ 271,581	$ 520,256

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Advertising Costs

The Center expenses advertising costs as incurred. Advertising and marketing costs totaled $11,382 and $14,154 for the years ended June 30, 2014 and 2013, respectively, and are reported in other operating expenses.

13. Functional Allocation of Expenses

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

14. Donated Goods and Services

The Center records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. There were no in-kind services recorded for 2014 or 2013.

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, 2013	$ 3,499,801	$ 618,434	$ 498,833	$ 4,617,068
Amortization of fair value of donated use of building	(499,971)	(56,222)	(82,000)	(638,193)
Reported balance June 30, 2014	$ 2,999,830	$ 562,212	$ 416,833	$ 3,978,875

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Donor-Restricted Contributions

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

17. Conditional Promises to Give

La Familia has been named as a beneficiary of a bequest totaling approximately $500,000. The associated revenue will be recognized when the estate is validated by the probate court.

18. Reclassifications

Certain reclassifications have been made to the June 30, 2013 financial statement presentation to correspond to the current year's format.

19. Subsequent Events

Subsequent events have been evaluated through November 24, 2014, 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, 2014. Management does not believe any material subsequent events have occurred that would require accrual or disclosure.

NOTE B – INVESTMENTS

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

	2014 Fair Value	2013 Fair Value
Money market funds	$ 13,501	$ 14,963
Corporate bonds-global and U.S. Fixed Income	316,031	295,938
Emerging Markets Fund	23,751	20,707
International Small Co. Fund	61,396	47,343
International HBTM	117,455	93,052
Real Estate Securities Fund	15,936	14,217
U.S. Market Fund	54,238	62,707
U.S. Small Company Fund	40,815	32,853
US HBTM Fund	88,318	69,537
	$ 731,441	$ 651,317

NOTE B – INVESTMENTS – CONTINUED

Investment return at June 30 is summarized as follows:

	2014	2013
Interest and dividend income	$ 8,499	$ 10,975
Unrealized gains	76,174	50,625
Investment fees	(4,549)	(4,818)
Total investment return	$ 80,124	$ 56,782

NOTE C – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivables consisted of the following at June 30:

	2014	2013
Medicaid	$ 470,016	$ 353,908
Medicare	132,186	109,798
Private insurance	66,493	82,282
Special contracts	33,694	224,552
Patient and other	372,730	577,915
	1,075,119	1,348,455
Less allowance for doubtful accounts	(455,738)	(520,256)
Patients accounts receivable, net	$ 619,381	$ 828,199

NOTE D – MEDICAL SUPPLY INVENTORY

Inventory consisted of the following at June 30:

	2014	2013
Medical, dental, and other supplies	$ 64,480	$ 35,312
Pharmacy supplies	26,265	24,299
Balance at end of year	$ 90,745	$ 59,611

NOTE E – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

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

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

Determination of Fair Value

Under the Fair Value Measurements Topic of the FASB 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, 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 based on net asset value based on quoted market prices in active markets.

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, 2014

	Level 1	Level 2	Level 3	Total
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	13,501	-	-	13,501
Total assets at fair value	$ 731,441	$ 61,753	$ -	$ 793,194

Assets at Fair Value as of June 30, 2013

	Level 1	Level 2	Level 3	Total
Equity funds	$ 340,416	$ -	$ -	$ 340,416
Bond funds	295,938	-	-	295,938
Beneficial interest in assets held by Santa Fe Community Foundation	-	56,282	-	56,282
Money market funds	14,963	-	-	14,963
Total assets at fair value	$ 651,317	$ 56,282	$ -	$ 707,599

NOTE F – LONG-TERM DEBT

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

	2014	2013
A note payable to a local bank at prime rate plus 2% (5.25% at June 30, 2014 and 2013); secured by substantially all assets of the Center; due in monthly payments of $2,600 including interest through May 2017.	$ 146,570	$ 202,886
Note payable to New Mexico Finance Authority at 3.00%; 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. The note was paid in full in August 2014.	9,827	21,333
Total long-term debt	156,397	224,219
Less current portion	(63,138)	(54,170)
Long-term portion	$ 93,259	$ 170,049

Maturities of long-term debt at June 30, 2014 are as follows:

Year Ending June 30,	
2015	$ 63,138
2016	56,424
2017	36,835
	$ 156,397

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, 2014 were:

Year Ending June 30,		
2015	$	47,660
2016		16,634
2017		514
	$	64,808

Rental expense for all operating leases was $69,014 and $68,994 for the years ended June 30, 2014 and 2013, respectively.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Donated use of buildings	$ 3,978,875	$ 4,617,068
Beneficial interest in assets held by Santa Fe Community Foundation	61,753	56,282
Diabetes / obesity program	20,597	17,754
Miscellaneous	16,527	3,503
	$ 4,077,752	$ 4,694,607

Net assets released from restrictions at June 30 related to:

	2014	2013
Donated use of buildings	$ 638,193	$ 638,157
Diabetes / obesity program	-	32,164
Miscellaneous	-	4,257
	$ 638,193	$ 674,578

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 $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, 2014 and 2013 totaled $67,416 and $54,092, 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, 2014 and 2013, the Center contributed $106,146 and $91,632, respectively, towards the Plan.

NOTE K – FUNCTIONAL ALLOCATION OF EXPENSES

	2014	2013
Health care services	$ 10,469,014	$ 10,413,887
General and administrative	1,408,419	1,380,801
Fundraising	114,032	80,422
	$ 11,991,465	$ 11,875,110

NOTE L – MEDICARE AND MEDICAID COST REPORT SETTLEMENTS

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

NOTE M – ECONOMIC DEPENDENCE

During the fiscal year ended June 30, 2014, the Center received approximately 16% 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, 2014, the Center received approximately 29% 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, 2014.

Malpractice Claims

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

Litigation

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

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, 2017.

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.

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, 2014

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	5 H80CS00606-12-00	93.224	$ 3,128,801
Consolidated Health Centers	5 H80CS00606-13-00	93.224	278,723
Total Consolidated Health Centers			3,407,524
ARRA - CIP	6 C81CS14077-01-02	93.703	74,908
Total ARRA			74,908
Total U.S. Department of Health and Human Services			$ 3,482,432

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 AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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 nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013 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 November 24, 2014.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 24, 2014

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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, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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, 2014.

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.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 24, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued	Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

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

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
93.224	Consolidated Health Centers
93.703	ARRA – 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, 2014

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, 2014

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, 2014
Telephone Number:	(505) 843-6492
Federal Employee ID Number:	85-0211867

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