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LA FAMILIA MEDICAL CENTER

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016 and 2015 (Restated)

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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, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Familia Medical Center as of June 30, 2016 and 2015, 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 December 7, 2016 on our consideration of La Familia Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Familia Medical Center's internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 7, 2016

La Familia Medical Center

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2016	(As Restated) 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 1,027,452	$ 1,515,512
Short-term investments	1,479,926	723,528
Patient accounts receivable, net of allowance for doubtful accounts of $988,828 in 2016 and $395,905 in 2015	773,428	685,473
Grant and contract receivables	283,697	531,130
Estimated amounts due from third-party payors	-	13,000
Prepaid expenses	56,063	45,490
Medical supply inventory	115,801	84,708
Total current assets	3,736,367	3,598,841
PROPERTY AND EQUIPMENT		
Buildings and leasehold improvements	3,137,685	3,137,685
Equipment	2,660,239	2,542,977
Construction in progress	18,782	-
	5,816,706	5,680,662
Less accumulated depreciation and amortization	(2,815,898)	(2,458,080)
Net property and equipment	3,000,808	3,222,582
DONATED USE OF BUILDINGS	2,702,490	3,340,683
BENEFICIAL INTEREST IN ASSETS HELD BY SANTA FE COMMUNITY FOUNDATION	55,102	60,207
Total assets	$ 9,494,767	$ 10,222,313

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

LIABILITIES AND NET ASSETS

		(As Restated)
	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 165,551	$ 355,629
Accrued payroll and related liabilities	481,588	764,752
Accrued contingencies	235,000	-
Incurred but not yet reported self-insurance claims	71,770	166,521
Other liabilities	62	584
Health care risk pool	436,625	144,469
Long-term debt, current portion	-	92,912
Total current liabilities	1,390,596	1,524,867
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS		
Unrestricted	5,160,629	5,108,732
Unrestricted, board designated	150,000	150,000
Total unrestricted	5,310,629	5,258,732
Temporarily restricted	2,738,440	3,378,507
Permanently restricted	55,102	60,207
Total net assets	8,104,171	8,697,446
Total liabilities and net assets	$ 9,494,767	$ 10,222,313

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Net patient service revenue, net of contractual allowance and discounts	$ 6,365,043	$ -	$ -	$ 6,365,043
Provision for doubtful accounts	(376,222)	-	-	(376,222)
Net patient service revenue less provision for doubtful accounts	5,988,821	-	-	5,988,821
Federal revenue	4,315,371	-	-	4,315,371
Other grants and contract revenue	2,431,878	-	-	2,431,878
Contribution revenue	367,397	-	-	367,397
In-kind revenue	278,143	-	-	278,143
Other	140,084	2,145	-	142,229
Total revenue and support	13,521,694	2,145	-	13,523,839
Net assets released from restrictions	642,212	(642,212)	-	-
OPERATING EXPENSES				
Salaries, wages, and employee benefits	10,046,048	-	-	10,046,048
Other operating expenses	1,114,304	-	-	1,114,304
In-kind expenses	916,336	-	-	916,336
Purchased services and professional fees	782,547	-	-	782,547
Medical supplies	581,843	-	-	581,843
Depreciation and amortization	383,443	-	-	383,443
Contingencies	235,000	-	-	235,000
Interest	8,989	-	-	8,989
Total operating expenses	14,068,510	-	-	14,068,510
CHANGES IN NET ASSETS FROM OPERATIONS	95,396	(640,067)	-	(544,671)
Loss on investments, net of deductions	(43,499)	-	(5,105)	(48,604)
CHANGES IN NET ASSETS	51,897	(640,067)	(5,105)	(593,275)
Net assets, beginning of year, as previously reported	5,095,795	3,378,507	60,207	8,534,509
Change in net assets from the restatement	162,937	-	-	162,937
Net assets, beginning of year, as restated	5,258,732	3,378,507	60,207	8,697,446
Net assets, end of year	$ 5,310,629	$ 2,738,440	$ 55,102	$ 8,104,171

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, 2015 (as restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Net patient service revenue, net of contractual allowances and discounts	$ 5,270,399	$ -	$ -	$ 5,270,399
Provision for doubtful accounts	(8,253)	-	-	(8,253)
Net patient service revenue less provision for doubtful accounts	5,262,146	-	-	5,262,146
Federal revenue	4,142,515	-	-	4,142,515
Other grants and contract revenue	2,686,836	-	-	2,686,836
In-kind revenue	293,638	-	-	293,638
Contribution revenue	705,267	17,411	-	722,678
Other	91,700	-	-	91,700
Total revenue and support	13,182,102	17,411	-	13,199,513
Net assets released from restrictions	654,903	(654,903)	-	-
OPERATING EXPENSES				
Salaries, wages, and employee benefits	9,660,316	-	-	9,660,316
Other operating expenses	1,151,448	-	-	1,151,448
In-kind expenses	929,273	-	-	929,273
Purchased services and professional fees	701,405	-	-	701,405
Medical supplies	583,657	-	-	583,657
Depreciation and amortization	379,402	-	-	379,402
Interest	14,610	-	-	14,610
Loss on disposal of property and equipment	2,498	-	-	2,498
Total operating expenses	13,422,609	-	-	13,422,609
CHANGES IN NET ASSETS FROM OPERATIONS	414,396	(637,492)	-	(223,096)
Return on investments, net of deductions	(7,913)	-	(1,546)	(9,459)
CHANGES IN NET ASSETS	406,483	(637,492)	(1,546)	(232,555)
Net assets, beginning of year	4,852,249	4,015,999	61,753	8,930,001
Net assets, end of year	$ 5,258,732	$ 3,378,507	$ 60,207	$ 8,697,446

La Familia Medical Center

STATEMENTS OF CASH FLOWS

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

	2016	(As Restated) 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (593,275)	$ (232,555)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Unrealized loss on investments	71,794	23,681
Interest and dividends reinvested	(28,295)	(16,348)
Depreciation and amortization	383,443	379,402
Loss on disposal of property and equipment	-	2,498
Amortization of donated use of buildings	638,193	638,193
Incurred but not yet reported self-insurance claims	(94,751)	99,104
Change in allowance for doubtful accounts	592,923	(59,833)
Change in beneficial interest in assets held by Santa Fe Community Foundation	5,105	1,546
Change in operating assets and liabilities:		
Patients accounts receivable	(680,878)	(6,259)
Grant and contract receivables	247,433	359,162
Estimated amounts due from third-party payors	13,000	7,000
Prepaid expenses	(10,573)	(8,391)
Medical supply inventory	(31,093)	6,037
Accounts payable	(190,078)	42,697
Contingencies	235,000	-
Accrued payroll and related liabilities and other liabilities	(283,686)	130,727
Health care risk pool	292,156	(131,884)
Net cash provided by operating activities	566,418	1,234,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	-	105,759
Purchases of investments	(799,897)	(105,179)
Purchases of property and equipment	(161,669)	(403,758)
Net cash used in investing activities	(961,566)	(403,178)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(92,912)	(63,485)
Net cash used in financing activities	(92,912)	(63,485)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(488,060)	768,114
Cash and cash equivalents, beginning of year	1,515,512	747,398
Cash and cash equivalents, end of year	$ 1,027,452	$ 1,515,512

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

La Familia Medical Center

STATEMENTS OF CASH FLOWS – CONTINUED

For the years ended June 30,

Increase (Decrease) in Cash and Cash Equivalents

SUPPLEMENTAL CASH FLOW DATA

	2016	2015
In-kind revenues	$ 278,143	$ 293,638
In-kind expenses	278,143	291,080
Interest paid in cash	8,989	14,610

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Organization and Program

La Familia Medical Center (the Center) is a non-profit organization incorporated in the State of New Mexico. The Center's purpose is to provide high quality, comprehensive medical, dental and health education services with special emphasis on the underserved. These services are affordable and culturally sensitive, and are delivered in a manner respectful of patients' privacy, rights, and dignity, regardless of their financial resources. The primary location of clients served is 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, 2016 and 2015. 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, 2016 and 2015. Under the statute of limitations, the Center's tax returns are no longer subject to examination by tax authorities for years prior to 2013.

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 permanent investment assets held at a community foundation. There is no requirement to maintain the corpus of the community foundation assets or replace investment losses to maintain a minimum asset balance.

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 each category of account ownership for each financial institution. Account balances at financial institutions may at times exceed federally or commercially insured limits. The Center has not experienced any losses from, and believes it is not exposed to, significant credit risk from these deposits.

6. Investments

Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized gains and losses are recorded on a specific identification method upon the sale of investment assets. Realized and unrealized gains and losses on investments are reported as a non-operating item after changes in net assets from operations. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these financial statements.

7. Receivables

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Center provides for an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Center bills third-party payors directly and bills the patient when the patient’s liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. No collateral is secured on receivables for medical services. No individual can be denied medical treatment based on the terms of the Center's HRSA 330 and Rural Primary Health Care Act funding.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 $1,000 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.

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. Prior Period Restatement

At June 30, 2015, the financial statements of La Familia reported deferred revenue in the amount of $162,937 as a current liability. Subsequent to the issuance of the financial statements it was determined this amount was improperly classified and should have represented revenue in the fiscal period. The restatement of the prior period decreases the current liabilities by $162,937 and increases federal revenue and the ending unrestricted net assets by this same amount.

11. Revenue Recognition

Net Patient Service Revenue

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

Charity Care

The Center provides care without expectation of payment, or payments at less than its established rates, to patients meeting certain criteria under its charity care policy.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

Sliding Fee Scale

The Center provides care to patients who meet federal poverty guidelines under a sliding fee scale policy at amounts less than its established rates. These deductions from the established rates are reported in the financial statements as a deduction of revenue through contractual adjustment.

Homeless Charity Write-Off

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

Charity Write-Off

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

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

	2016	2015
Amounts discounted under federal sliding fee scale	$ 933,906	$ 840,631
Amounts discounted for homeless patients	62,055	65,820
Charity write-offs of patients determined to be indigent using other guidelines	338,330	302,804
Total charity care adjustments and reductions of net service revenue	$ 1,334,291	$ 1,209,255

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Revenue Recognition – Continued

	June 30, 2016		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 5,558,060	$ 806,983	$ 6,365,043
Provision for doubtful accounts	(158,013)	(218,209)	(376,222)
	$ 5,400,047	$ 588,774	$ 5,988,821

	June 30, 2015		
	Third Party Payor	Self-Pay	Total
Net patient service revenue	$ 4,312,840	$ 957,559	$ 5,270,399
Provision for doubtful accounts	(3,466)	(4,787)	(8,253)
	$ 4,309,374	$ 952,772	$ 5,262,146

The allowance for doubtful accounts is allocated as follows:

	Third Party Payor	Self-Pay	Total
June 30, 2016	$ 591,730	$ 397,098	$ 988,828
June 30, 2015	$ 163,029	$ 232,876	$ 395,905

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 and Marketing Costs

The Center expenses advertising costs as incurred. Advertising and marketing costs totaled $34,812 and $17,079 for the years ended June 30, 2016 and 2015, respectively, and are reported in other operating expenses.

13. Functional Allocation of Expenses

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

14. Donated Goods and Services

The Center records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. Contributed goods consist primarily of medical supplies and are recorded at the value established by the donor.

15. Donated Buildings

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

	City of Santa Fe Donated Use of Building	County of Santa Fe Donated Use of Building	Santa Fe Community College Donated Use of Building	Total
Reported balance June 30, 2015	$ 2,499,859	$ 505,990	$ 334,834	$ 3,340,683
Amortization of fair value of donated use of building	(499,971)	(56,222)	(82,000)	(638,193)
Reported balance June 30, 2016	$ 1,999,888	$ 449,768	$ 252,834	$ 2,702,490

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. Subsequent Events

Subsequent events have been evaluated through December 7, 2016, the date the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ending June 30, 2016. 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:

	2016 Fair Value	2015 Fair Value
Corporate bonds-Global and U.S. Fixed Income	$ 723,613	$ 329,976
International HBTM	200,949	124,802
U.S. HBTM Fund	150,810	70,274
U.S. Market Fund	106,751	57,611
International Small Co. Fund	87,151	58,195
U.S. Small Company Fund	73,949	42,778
Real Estate Securities Fund	53,378	16,433
Emerging Markets Fund	43,578	20,776
Money Market Funds	39,747	2,683
	$ 1,479,926	$ 723,528

NOTE B – INVESTMENTS – CONTINUED

Investment return at June 30 is summarized as follows:

	2016	2015
Interest and dividend income	$ 28,295	$ 16,348
Unrealized loss	(64,878)	(19,561)
Investment fees	(6,916)	(4,700)
Total investment loss	$ (43,499)	$ (7,913)

NOTE C – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consisted of the following at June 30:

	2016	2015
Medicaid	$ 293,991	$ 282,997
Medicare	693,181	111,021
Private insurance	99,614	89,725
Special contracts	140,081	156,346
Patient and other	535,389	441,289
	1,762,256	1,081,378
Less allowance for doubtful accounts	(988,828)	(395,905)
Patients accounts receivable, net	$ 773,428	$ 685,473

NOTE D – MEDICAL SUPPLY INVENTORY

Medical supply inventory consisted of the following at June 30:

	2016	2015
Medical, dental, and other supplies	$ 68,165	$ 56,557
Pharmacy supplies	47,636	28,151
Balance at end of year	$ 115,801	$ 84,708

NOTE E – FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

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

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

Determination of Fair Value

Under the Fair Value Measurements Topic of the FASB ASC, the Center bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Center’s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon management’s own estimates, and are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability, and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

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

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

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

NOTE E – FAIR VALUE MEASUREMENTS – CONTINUED

Determination of Fair Value – 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, 2016

	Level 1	Level 2	Level 3	Total
Equity funds	$ 716,566	$ -	$ -	$ 716,566
Bond funds	723,613	-	-	723,613
Beneficial interest in assets held by Santa Fe Community Foundation	-	55,102	-	55,102
Money market funds	39,747	-	-	39,747
Total assets at fair value	$ 1,479,926	$ 55,102	$ -	$ 1,535,028

Assets at Fair Value as of June 30, 2015

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

NOTE F – LONG-TERM DEBT

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

	2016	2015
A note payable to a local bank at prime rate plus 2% (5.25% at June 30, 2016 and 2015); secured by substantially all assets of the Center	$ -	$ 92,912
Less current portion	-	(92,912)
Long-term portion	$ -	$ -

NOTE G – LEASES

The Center leases various equipment and facilities under operating leases expiring at various dates through 2021.

Future minimum lease payments at June 30, 2016, were:

Year Ending June 30,	
2017	$ 54,238
2018	63,566
2019	49,391
2020	34,575
2021	5,920
	$ 207,690

Rental expense for all operating leases was $59,236 and $72,939 for the years ended June 30, 2016 and 2015, respectively.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Donated use of buildings	$ 2,702,490	$ 3,340,683
Diabetes / obesity program	34,818	34,818
Miscellaneous	1,132	1,006
Dental	-	2,000
	$ 2,738,440	$ 3,378,507

Net assets released from restrictions at June 30 related to:

	2016	2015
Donated use of buildings	$ 638,193	$ 638,193
Miscellaneous	4,019	7,310
Dental	-	9,400
	$ 642,212	$ 654,903

NOTE I – SELF-FUNDED HEALTH INSURANCE

The Center has a self-insured health plan for its employees. A third-party administrator handles claims and records. The Center has a $40,000 specific stop-loss per employee each calendar year, with the total stop-loss for each calendar year based on the number of employees enrolled and the amount of premiums and other costs. The amount of the liability for claims incurred, but not reported as of June 30, 2016 and 2015, totaled $71,770 and $166,521, 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, 2016 and 2015, the Center contributed $119,640 and $115,267, respectively, towards the Plan.

NOTE K – FUNCTIONAL ALLOCATION OF EXPENSES

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

	2016	2015
Health care services	$ 12,371,229	$ 11,818,893
General and administrative	1,590,475	1,499,848
Fundraising	106,806	103,868
	$ 14,068,510	$ 13,422,609

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 years ended June 30, 2016 and 2015, the Center received approximately 32% and 31%, respectively, of its total revenue and support 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.

In addition, during the fiscal years ended June 30, 2016 and 2015, 19% and 17%, respectively, of the Centers' revenues were from the Medicaid program for patient services rendered, which renews annually. The complete loss of this contract could have a significant impact on the Center.

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, 2016.

NOTE N – COMMITMENTS AND CONTINGENCIES – CONTINUED

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.

Regulation and Licensing Claim

The Center, in its normal course of business, is subject to regulation and licensing oversight. The Center has accrued $235,000 in the current year pending the resolution of a patient billing issue. The amount accrued is a conservative estimate reflecting a high percentage of the Center's maximum exposure. The Center believes there are mitigating factors that may significantly reduce the actual liability from the accrual.

NOTE O – NEW ACCOUNTING STANDARDS

1. <u>Leases</u>

On February 25, 2016, the Financial Accounting Standards Board issued ASU 2016-02 *Leases* (FASB Codification Topic 842) which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB Codification Topic 840. With this update, GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position (balance sheet), a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2019.

As of the date of these financial statements, management has not determined the impact this new ASU will have on future reporting periods.

NOTE O – NEW ACCOUNTING STANDARDS – CONTINUED

2. Revenue from Contracts with Customers

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

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

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

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

3. Interest – Imputation of Interest

The FASB has recently issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)* that was designed to develop a common standard for recognizing debt issuance costs for U.S. GAAP and international standards. The core principle of this ASU is that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, thereby increasing the effective interest rate. The recognition and measurement guidance for debt issuance costs are not affected by the amendments of this update.

Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items. This ASU will be effective for annual periods beginning after December 15, 2015

NOTE O – NEW ACCOUNTING STANDARDS – CONTINUED

4. New Nonprofit Framework

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (FASB Codification Topic 958) to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU are as follows:

A. Present the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a non-for-profit will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.

B. Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item A) rather than that of the currently required three classes. A non-for-profit would continue to report the currently required amount of the change in total net assets for the period.

C. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

D. Provide the following enhanced disclosures about:

a) Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
b) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
c) Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
d) Quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
e) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.
f) Method(s) used to allocate costs among program and support functions.

NOTE O – NEW ACCOUNTING STANDARDS – CONTINUED

4. New Nonprofit Framework - Continued

g) Underwater endowment funds, which include required disclosures of (1) a not-for-profit's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

E. Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.

F. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments in this ASU are effective for annual financial statements issued for fiscal years 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.

SCHEDULES AND REPORTS REQUIRED BY THE UNIFORM GUIDANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

Federal Grantor - Pass-through Grantor - Program Title -	Grant or Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services Direct Awards:			
Consolidated Health Centers	H80CS00606	93.224	$ 2,396,425
Consolidated Health Centers	H80CS00606	93.527	1,918,946
Total Consolidated Health Centers			4,315,371
Total U.S. Department of Health and Human Services			$ 4,315,371

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE B

There are no sub-recipients of federal funds as of and for the year ended June 30, 2016.

NOTE C

The Center has not elected to utilize the 10% minimum indirect cost rate.

NOTE D

There are no loan balances or transactions as of and for the year ended June 30, 2016.

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

Board of Directors
La Familia Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of La Familia Medical Center (the Center) (a non-profit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 December 7, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency (2015-001).

Compliance and Other Matters

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

La Familia's Response to Finding

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

Purpose of this Report

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

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 7, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. La Familia Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of La Familia Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 7, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

Section I – Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified

Internal Control over Financial Reporting:

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

Federal Awards:

Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	None

Identification of Major Programs:

CFDA Numbers	Name of Federal Program
93.224	Consolidated Health Centers

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

For the year ended June 30, 2016

Section II – Financial Statement Findings

Prior Year and Current Year Findings
2015-001 - Approval of Adjusting Entries (Significant Deficiency) – Repeated

Section III – Federal Award Findings and Questioned Costs

Current year findings	None
Prior year findings	None

FINANCIAL STATEMENT FINDINGS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

2015-001 Approval of Adjusting Entries (Significant Deficiency)

CONDITION:
There is currently a lack of review of journal entries and bank reconciliations prepared by the Finance Director. This task was previously performed by the prior CEO, but is not currently being performed. This comment is repeated for 2016.

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

CAUSE:
A change in top management changed the review procedures formerly in place. The implementation of new oversight procedures has been more difficult than anticipated.

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

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

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

IDENTIFICATION OF AUDIT PRINCIPAL

June 30, 2016

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, 2016
Telephone Number:	(505) 843-6492
Federal Employee ID Number:	85-0211867

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