

LA FAMILIA MEDICAL CENTER
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 AND 2018

**LA FAMILIA MEDICAL CENTER
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YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
La Familia Medical Center
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of La Familia Medical Center (the Organization), which comprise the balance sheets as of June 30, 2019 and 2018 and the related statements of operations, 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 audit 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 entity'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 entity'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 the Organization as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, La Familia Medical Center adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 November 20, 2019, on our consideration of the Organization'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Denver, Colorado
November 20, 2019

**LA FAMILIA MEDICAL CENTER
BALANCE SHEETS
JUNE 30, 2019 AND 2018**

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 363,891	\$ 1,205,856
Receivables:		
Patient Receivables, Net	815,662	1,175,709
Grants Receivables	436,586	356,939
Other Receivables	2,430	1,164
Inventory	126,077	198,363
Prepaid Expenses	33,480	56,836
Total Current Assets	<u>1,778,126</u>	<u>2,994,867</u>
PROPERTY AND EQUIPMENT, NET	2,454,050	2,073,546
INVESTMENTS	2,530,970	1,707,820
OTHER ASSETS		
Donated Use of Buildings	787,911	1,426,104
Investment in New Mexico Care Partners, LLC	200,000	-
Beneficial Interest in Assets Held by Santa Fe Community Foundation	<u>57,732</u>	<u>58,561</u>
Total Other Assets	<u>1,045,643</u>	<u>1,484,665</u>
Total Assets	<u><u>\$ 7,808,789</u></u>	<u><u>\$ 8,260,898</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 327,463	\$ 450,630
Accrued Payroll, Benefits, and Related Liabilities	672,444	623,959
Other Accrued Liabilities	152,718	235,000
Total Current Liabilities	<u>1,152,625</u>	<u>1,309,589</u>
NET ASSETS		
Net Assets without Donor Restrictions	5,810,521	5,466,644
Net Assets with Donor Restrictions	<u>845,643</u>	<u>1,484,665</u>
Total Net Assets	<u>6,656,164</u>	<u>6,951,309</u>
Total Liabilities and Net Assets	<u><u>\$ 7,808,789</u></u>	<u><u>\$ 8,260,898</u></u>

See accompanying Notes to Financial Statements.

**LA FAMILIA MEDICAL CENTER
STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS		
Net Patient Service Revenue, Net of		
Contractual Allowances and Discounts	\$ 7,192,163	\$ 7,127,350
Provision for Bad Debts	(928,384)	(523,433)
Net Patient Service Revenue Less Provision for Bad Debts	6,263,779	6,603,917
Federal Grant Funds	5,456,910	5,290,591
Other Grants and Contracts	2,465,682	1,977,244
Contributions	1,125,403	383,191
In-Kind Contributions	270,737	214,733
Other Revenue	48,627	48,832
Investment Income (Loss)	(12,661)	102,140
Net Assets Released from Restrictions	-	308
Total Support and Revenues without Donor Restrictions	15,618,477	14,620,956
EXPENSES		
Salaries, Wages, and Benefits	10,936,616	10,401,896
Professional Fees	895,995	861,642
Supplies	897,275	818,514
Other	1,638,127	1,516,620
Depreciation and Amortization	1,273,973	1,162,085
In-Kind Expenses	270,737	214,733
Interest	70	758
Total Expenses	15,912,793	14,976,248
DEFICIT OF REVENUES OVER EXPENSES	(294,316)	(355,292)
Net Assets Released from Restrictions for		
Donated Use of Buildings	638,193	638,193
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 343,877	\$ 282,901

See accompanying Notes to Financial Statements.

**LA FAMILIA MEDICAL CENTER
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Deficit of Revenues over Expenses	\$ (294,316)	\$ (355,292)
Net Assets Released from Restrictions for Donated Use of Buildings	638,193	638,193
Increase in Net Assets without Donor Restrictions	343,877	282,901
NET ASSETS WITH DONOR RESTRICTIONS		
Change in Beneficial Interest in Assets Held by Santa Fe Community Foundation	(829)	909
Net Assets Released from Restrictions for Donated Use of Buildings	(638,193)	(638,193)
Net Assets Released from Restrictions	-	(308)
Decrease in Net Assets with Donor Restrictions	(639,022)	(637,592)
DECREASE IN NET ASSETS	(295,145)	(354,691)
Net Assets - Beginning of Year	6,951,309	7,306,000
NET ASSETS - END OF YEAR	\$ 6,656,164	\$ 6,951,309

See accompanying Notes to Financial Statements.

**LA FAMILIA MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (295,145)	\$ (354,691)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,273,973	1,162,085
Provision for Bad Debts	928,384	523,433
Realized and Unrealized (Gains) Losses on Investments	57,188	(100,149)
Change in Beneficial Interest of Assets Held by Santa Fe Community Foundation	829	(909)
Changes in Assets and Liabilities:		
Patient Receivables	(568,337)	(1,012,802)
Grants Receivable	(79,647)	(68,444)
Other Receivables	(1,266)	19,302
Inventory	72,286	(41,655)
Prepaid Expenses	23,356	8,454
Accounts Payable	(123,167)	146,801
Accrued Payroll, Benefits, and Related Liabilities	(33,797)	(5,695)
Net Cash Provided by Operating Activities	<u>1,254,657</u>	<u>275,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,016,284)	(726,432)
Investment in New Mexico Care Partners, LLC	(200,000)	-
(Purchases) Sales of Investments	(880,338)	10,607
Net Cash Used by Investing Activities	<u>(2,096,622)</u>	<u>(715,825)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(841,965)	(440,095)
Cash and Cash Equivalents - Beginning of Year	<u>1,205,856</u>	<u>1,645,951</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 363,891</u>	<u>\$ 1,205,856</u>

See accompanying Notes to Financial Statements.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

La Familia Medical Center (the Organization) is a nonprofit health care organization in the state of New Mexico. The mission of the Organization is to foster community well-being in partnership with its patients by providing excellent, accessible, family-centered medical, dental, and behavioral health care. The Organization provides for the community with a special emphasis on working with the underserved. The primary location of clients served is Santa Fe, New Mexico, and the surrounding area. The Organization's support is derived primarily from service fees, government grants, other grants, and contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes. The Organization had net assets designated by the board of directors as of June 30, 2019 and 2018 in the amount of \$150,000 as a reserve for the Organization's self-funded health insurance plan.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. At June 30, 2019 and 2018, the Organization had restrictions that were both temporary and perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor restriction or by law. Expirations of donor restrictions on assets are reported as transfers between the applicable classes of net assets. Contributions with externally imposed restrictions that are met in the same year as received are reported as revenues of the net asset without donor restriction class.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and short-term investments with an original maturity of three months or less from the date of purchase. The Organization may, from time to time have deposits in financial institutions that exceed FDIC insurance limits.

Investments

Investments in money markets, mutual funds, equity, and debt securities that do not meet the criteria for cash and cash equivalents are accounted for as investments. Investments with readily determinable fair values are stated at fair market values in the accompanying financial statements.

Patient Accounts Receivable

Accounts receivable are uncollateralized patient and third-party obligations. Accounts receivable are stated at the net collectible invoice amount. Payments of accounts receivable are applied to the specific invoices identified on the patient's or third-party's remittance advice or, if unspecified, to the earliest unpaid invoices. There is no interest charged on unpaid accounts.

The Organization continuously monitors the expected realization of its billings and estimates contractual adjustments (reductions in receivables) to provide for differences, as well as providing for allowances for doubtful accounts.

The Organization determines the amount of the allowances by reference to cash collection experience from its patient fees, Medicaid, Medicare, and insurance. If there is a deterioration of a patient's creditworthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Organization could be adversely affected. Such allowances were approximately \$309,000 and \$473,000 as of June 30, 2019 and 2018, respectively, and have been provided for in the accompanying balance sheets.

Inventory

Inventory is comprised of medical, laboratory, and pharmaceutical supplies. Inventory is stated at the lower of cost or net realizable value, using the first-in, first-out method.

Property and Equipment

Land, buildings, furniture, and equipment are recorded at cost or, if donated, at the fair market value at the date of donation. Repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the useful life or lease term. Depreciation is provided using the straight-line method over the following estimated lives:

Buildings and Improvements	3 to 30 Years
Equipment, Furniture, and Fixtures	2 to 30 Years

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The Organization capitalizes individual items of property and equipment with a cost of (or fair value of contributed items) of \$2,500 or more and a useful life of more than two years when purchased.

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 Organization. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets as of June 30, 2019 and 2018.

Net Patient Service Revenue

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, case rates, discounted charges, per diem payments, and enhancements. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors as final settlements are determined.

For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided. A significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a provision for bad debts related to uninsured patients in the period the services are provided. The Organization also records provision for doubtful accounts related to third-party payors for services provided.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sliding Fee Adjustments (Charity Care)

The Organization has a policy of providing care to uninsured patients who meet certain criteria under its policy at amounts less than its established rates. However, all patients are requested to pay a nominal fee for each visit, although no patient is denied services because of inability to pay. Since management does not expect full payment for this care, the services that are discounted from the established rates are excluded from net patient service revenue. During the years ended June 30, 2019 and 2018, the Organization provided approximately \$3,025,000 and \$2,691,000, respectively, of discounted services under this policy based on gross charges.

Grant Revenue

The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grant receivables. Amounts received but not yet earned are reported as deferred grant revenue.

Contributions

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, then net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions.

Donated Goods and Services

The Organization receives a substantial amount of donated goods and services. The amounts have been reflected in the financial statements as In-Kind Contributions. The Organization records donated services when those services require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if they were not provided by the donation.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Buildings

The Organization 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 Organization and charges \$1 per year. The Organization also leases a building which is owned by the county of Santa Fe. The county of Santa Fe provides certain premises to the Organization 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 Organization 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 eight years. The leases are cancelable upon certain notice. The Organization has recorded the long-term use of all property as a donated use of buildings 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 net assets with donor restrictions to net assets without donor restrictions 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, 2017	\$ 1,499,915	\$ 393,549	\$ 170,833	\$ 2,064,297
Amortization of Fair Value of Donated Use of Building	(499,972)	(56,221)	(82,000)	(638,193)
Reported Balance - June 30, 2018	999,943	337,328	88,833	1,426,104
Amortization of Fair Value of Donated Use of Building	(499,972)	(56,221)	(82,000)	(638,193)
Reported Balance - June 30, 2019	<u>\$ 499,971</u>	<u>\$ 281,107</u>	<u>\$ 6,833</u>	<u>\$ 787,911</u>

Advertising

Advertising costs are expensed as incurred.

Deficit of Revenues over Expenses

The statements of operations includes deficit of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from deficit of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Tax-Exempt Status

The Organization has previously received notice of exemption of income tax from the Internal Revenue Service (IRS) under Section 501(c)(3) of the federal Internal Revenue Code. The Organization is not a private foundation, and contributions to the Organization qualify as charitable tax deductions by the contributor.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status (Continued)

The Organization follows the accounting standards regarding the recognition and measurement of uncertain tax provisions. The implementation of the accounting standards regarding uncertain tax provisions had no impact on the Organization's financial statements.

The Organization is not aware of any activities that would jeopardize its tax-exempt status or aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

Fair Value

The Organization follows accounting standards regarding the fair value measurement of financial assets and liabilities. Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Organization has a policy to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value, however, may elect to measure newly acquired financial instruments at fair value in the future.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements – ASU 2016-14

During the year ended June 30, 2019, the Organization adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions) and additional disclosures around liquidity. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets.

Recently Issued Accounting Guidance

In May 2014, the FASB issued changes to the accounting requirements for recognizing revenue from contracts with customers. These changes created a comprehensive framework for entities in all industries to apply in the determination of when to recognize revenue and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to provide a consistent and comparable methodology for revenue recognition. The core principle of the guidance 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. To achieve this principle, an entity will apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. These changes are effective for fiscal years beginning after December 15, 2018. Management is evaluating the potential impact of these changes on the Organization's financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 20, 2019, the date the financial statements were available to be issued.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 LIQUIDITY AND AVAILABILITY

As of June 30, 2019 and 2018, the Organization has a working capital balance of \$625,501 and \$1,685,278, respectively. The Organization invests cash in excess of short-term requirements in investments. In addition, the Organization has equity investments which are liquid within one week.

The following table represents financial assets available for general expenditures within one year on June 30:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 363,891	\$ 1,205,856
Receivables:		
Patient Receivables, Net	815,662	1,175,709
Grants Receivables	436,586	356,939
Other Receivables	2,430	1,164
Investments	2,530,970	1,707,820
Total Financial Assets Available within One Year	<u>\$ 4,149,539</u>	<u>\$ 4,447,488</u>

The Organization has a line of credit available in the amount of \$100,000, as discussed in Note 7. As of June 30, 2019 and 2018, the full amount of the line of credit was available to the Organization.

NOTE 3 INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Money Markets	\$ 37,942	\$ 1,707,820
Fixed Income Mutual Funds	599,564	-
Equity Mutual Funds	1,767,197	-
Alternative Mutual Funds	126,267	-
Total Investments	<u>\$ 2,530,970</u>	<u>\$ 1,707,820</u>

Investment income for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and Dividends	\$ 44,527	\$ 1,991
Realized Gains on Investments	3,230	100,149
Unrealized Gains (Losses) on Investments	(60,418)	-
Total Investment Income (Loss)	<u>\$ (12,661)</u>	<u>\$ 102,140</u>

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 INVESTMENT IN NEW MEXICO CARE PARTNERS, LLC

During fiscal year 2019, the Organization contributed \$200,000 for a 16.667% membership interest in New Mexico Care Partners, LLC (NMCP), and a voting seat on the NMCP Board of Managers. NMCP was created by its members' to form a Clinically Integrated Network (CIN) which will contract as a single entity with the designated MCOs of the New Mexico Medicaid program and other payors in exchange for a commitment to: (i) improve the coordination and delivery of health care and promote higher quality care through patient-centered, evidence-based medicine; (ii) share best practices in regard to patient safety and clinical effectiveness; and (iii) develop and implement uniform measures by which CIN members will measure utilization, quality, effectiveness and cost efficiency of the health care services delivered. The Organization has recorded the investment NMCP at cost and will assess for impairment annually. The Organization has not determined the investment to be impaired as of June 30, 2019.

NOTE 5 NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payors that provide payments at amounts different from its established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare

Services rendered to Medicare program beneficiaries should be paid at established federal qualified health center (FQHC) enhancement rates, no matter the level or amount of services provided to the beneficiary. For each visit provided to a Medicare program beneficiary, the Organization is to be paid 80% of the established FQHC rate, with the beneficiary being responsible for the remaining 20% as co-insurance or, alternatively, the remaining 20% is billed to Medicaid for qualifying patients (dual eligible). The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the CMS Medicare fiscal intermediary.

Medicaid

Services rendered to Medicaid program beneficiaries are paid at established FQHC encounter rates, no matter the level or amount of services provided to the beneficiary. Medicaid reimbursement may be subject to periodic adjustments, as well as changes in annual reimbursement rates.

Other

The Organization has also entered into payment agreements with other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 NET PATIENT SERVICE REVENUE (CONTINUED)

Revenue from the Medicare and Medicaid programs accounted for approximately 73% and 70% of the Organization's net patient service revenue for the years ended June 30, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change in the near term by a material amount.

NOTE 6 PROPERTY AND EQUIPMENT, NET

The cost and accumulated depreciation of property and equipment were as follows at June 30:

	<u>2019</u>	<u>2018</u>
Buildings and Leasehold Improvements	\$ 4,905,643	\$ 3,350,655
Furniture, Fixtures, and Equipment	2,949,790	2,768,281
Construction in Progress	-	720,213
Total	<u>7,855,433</u>	<u>6,839,149</u>
Less: Accumulated Depreciation	<u>(5,401,383)</u>	<u>(4,765,603)</u>
Total Property and Equipment, Net	<u>\$ 2,454,050</u>	<u>\$ 2,073,546</u>

During fiscal year 2019, the Organization completed construction of the South Side Expansion Project and the pharmacy remodel. The Southside Expansion Project was completed in February 2019 at an approximate total cost of \$1,594,000 and was funded through a combination of grant funds and internal funds. The pharmacy remodel was completed in October 2018 at an approximate total cost of \$50,000 and was funded through operations.

NOTE 7 LINE OF CREDIT

On October 23, 2017, the Organization entered into a revolving line of credit with a financial institution in the amount of \$100,000. The revolving line of credit accrues interest at the Wall Street Journal Prime rate, which was 5.50% as of June 30, 2019, plus 1.00%. The revolving line of credit is collateralized by the Organization's assets and is due on demand. There were no amounts outstanding on the line of credit as of June 30, 2019 and 2018.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Subject to Expenditure for Specific Purpose:		
Donated Use of Buildings	\$ 787,911	\$ 1,426,104
Total	787,911	1,426,104
Not Subject to Appropriation or Expenditure:		
Operating Endowment	57,732	58,561
Total Net Assets with Donor Restrictions	\$ 845,643	\$ 1,484,665

NOTE 9 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK

Government Funding

Approximately 77% of the Organization's total support and revenue without donor restrictions for the years ended June 30, 2019 and 2018 was generated from either government-sponsored health programs or government-funded grant programs. The programs are dependent upon continued funding from these government agencies and the legislative acts that impact the programs.

Net Patient Receivables

The Organization also grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of June 30, 2019 and 2018 was as follows:

	2019	2018
Medicare	23 %	20 %
Medicaid	12	39
Self Pay	40	30
Other Third-Party Payors	25	11
Total	100 %	100 %

NOTE 10 IN-KIND CONTRIBUTIONS

In-kind contributions include donations of various pharmaceuticals, vaccines, and laboratory services from private and state sources. Amounts received from these sources for the years ended June 30, 2019 and 2018 were \$270,737 and \$214,733, respectively.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 11 SELF-FUNDED HEALTH INSURANCE

The Organization has a self-insured health plan for its employees. A third-party administrator handles claims and records. The Organization has a \$40,000 specific stop-loss per employee each calendar year, with an aggregate total stop-loss of \$75,000 up to \$1,000,000 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, 2019 and 2018 totaled approximately \$37,000 and \$39,000, respectively, and is included in accrued payroll, benefits, and related liabilities on the balance sheets.

NOTE 12 RETIREMENT PLAN

The Organization has a 403(b) tax deferred annuity plan (the Plan) covering substantially all employees. Employees may contribute funds to their retirement accounts according to IRS regulations. The Organization may make matching and discretionary contributions to the Plan as determined annually by the board of directors. For the years ended June 30, 2019 and 2018, the Organization contributed \$148,160 and \$134,202, respectively, toward the Plan.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Leases

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2019 that have initial or remaining terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 68,190
2021	35,220
2022	14,800
Total	<u>\$ 118,210</u>

Total rent expense for the years ended June 30, 2019 and 2018 was approximately \$89,000 and \$72,000, respectively.

Medical Billing Agreement

Effective November 1, 2018, the Organization entered into a service agreement with an unrelated entity to perform patient and insurance billing and accounts receivable functions related to medical services. The fee for these services is the greater of 4.99% of monthly collections or \$12,667 per month for the term of the agreement. The initial term of the agreement is for 18 months and renews automatically for 18-month terms unless terminated with 90 days written notice.

Medical Malpractice Insurance Coverage and Claims

The Organization is covered under the provision of the Federal Tort Claims Act (FTCA) for malpractice. The FTCA is a government-funded program which allows community health centers and other qualified providers to be covered for malpractice.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Grants

The Organization has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of the Organization. Such amounts will be recognized in the period they become known.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. This coverage has not changed significantly from the previous year.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 14 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible facilities that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Organization continuing to meet the escalating meaningful use criteria. The incentive payments are generally made over a four-year period.

The Organization recorded incentive payments of \$161,500 and \$348,500 for the years ended June 30, 2019 and 2018, respectively, which is included in other grants and contracts revenue on the statements of operations.

NOTE 15 FUNCTIONAL EXPENSES

The financial statements report certain expense categories that are attributable to more than health care services or support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest, and other occupancy costs, are allocated to a function based on a square-footage or units-of-service basis. Allocated health care services costs not allocated on a units-of-service basis are otherwise allocated based on time directly to program services support. Expenses related to providing these services by functional class for the years ended June 30, 2019 and 2018 is as follows:

2019	Health Care Services	Management and General	Fundraising Expenses	Totals
Salaries, Wages, and Benefits	\$ 9,843,120	\$ 1,004,687	\$ 88,809	\$ 10,936,616
Professional Fees	643,032	250,471	2,492	895,995
Supplies	876,458	19,588	1,229	897,275
Other	1,256,609	284,879	96,639	1,638,127
Depreciation and Amortization	1,215,738	58,235	-	1,273,973
In-Kind Expenses	248,532	-	22,205	270,737
Interest	34	32	4	70
Total Expenses	\$ 14,083,523	\$ 1,617,892	\$ 211,378	\$ 15,912,793
2018	Health Care Services	Management and General	Fundraising Expenses	Totals
Salaries, Wages, and Benefits	\$ 9,453,342	\$ 890,868	\$ 57,686	\$ 10,401,896
Professional Fees	669,096	189,107	3,439	861,642
Supplies	766,425	51,124	965	818,514
Other	1,163,336	272,608	80,676	1,516,620
Depreciation and Amortization	1,106,250	50,935	4,900	1,162,085
In-Kind Expenses	214,733	-	-	214,733
Interest	81	673	4	758
Total Expenses	\$ 13,373,263	\$ 1,455,315	\$ 147,670	\$ 14,976,248

**LA FAMILIA MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 16 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value, refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30, 2019:

2019	Level 1	Level 2	Level 3	Total
Assets:				
Fixed Income Mutual Funds	\$ 599,564	\$ -	\$ -	\$ 599,564
Equity Mutual Funds	1,767,197	-	-	1,767,197
Alternative Mutual Funds	126,267	-	-	126,267
Total	<u>\$ 2,493,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,493,028</u>



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
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Organization), which comprise the balance sheet as of June 30, 2019, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Board of Directors
La Familia Medical Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 the 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 result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Denver, Colorado
November 20, 2019



CliftonLarsonAllen LLP
CLAconnect.com

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

Board of Directors
La Familia Medical Center
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited La Familia Medical Center's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization'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 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 the Organization'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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to auditing procedures applied in the audit compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 the Organization'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* 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 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 which we consider to be significant deficiencies.

Board of Directors
La Familia Medical Center

The Organization's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.



CliftonLarsonAllen LLP

Denver, Colorado
November 20, 2019

**LA FAMILIA MEDICAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? X yes _____ none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

93.224
93.527

Name of Federal Program or Cluster

Health Center Program
Grants for New and Expanded Services Under
Health Center Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

_____ yes X no

**LA FAMILIA MEDICAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

There were no findings noted.

Section III – Findings and Questioned Costs – Major Federal Programs

2019-001: PROCUREMENT

Federal Agency: U.S. Department of Health and Human Services
Program Title: Consolidated Health Centers and Affordable Care Act (ACA)
 Grants for New and Expanded Services
CFDA Number: 93.224 and 93.527
Award Number: H80CS00606
Award Period: June 1, 2018 to May 31, 2019 and June 1, 2019 to May 31, 2020
Type of Finding: Significant Deficiency in Internal Control over Compliance and Compliance

Condition and Context

During our testing, we identified transactions which the Organization contracted with vendors for services that exceeded the \$25,000 threshold and did not consistently retain documentation for the bidding process for these services.

Criteria

Per procurement standards, nonfederal entities other than States, must follow the procurement standards set out at 2 CFR Sections 200.318 through 200.326. Per 2 CFR Section 200.319, procurement expenditures require documentation over the bidding process.

Effect

Potential misuse of grant resources.

Cause

The individual within the finance department that was responsible for retaining the procurement documentation left the Organization and the documentation has not been able to be found.

Recommendation

We recommend that the Organization implement processes and procedures to ensure that all disbursements charged to the federal grant are supported, approved, follow the proper procurement standards, and documentation supporting the procurement process is retained.

Management's Response

Management has revised the policy and procedure for validating and retaining documentation for contracted vendors for services exceeding \$25,000 to ensure all documentation related to the contractor is complete, updated periodically, and stored in a centralized location.

**LA FAMILIA MEDICAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs

2019-002: SPECIAL TESTS AND PROVISIONS (REPEAT FINDING 2018-003)

Federal Agency: U.S. Department of Health and Human Services
Program Title: Consolidated Health Centers and Affordable Care Act (ACA)
Grants for New and Expanded Services
CFDA Number: 93.224 and 93.527
Award Number: H80CS00606
Award Period: June 1, 2018 to May 31, 2019 and June 1, 2019 to May 31, 2020
Type of Finding: Significant Deficiency in Internal Control over Compliance and Compliance

Condition

During our testing, it was noted that the Organization did not have adequate internal controls designed to ensure the proper sliding fee discount was calculated and applied to a patient's account.

Criteria

Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay as determined by the Department of Health and Human Services official poverty guidelines. The Organization should have internal controls designed to ensure compliance with that provision.

Effect

The Organization's application of the sliding fee discounts could inadvertently under or over charge eligible patients.

Cause

The Organization's processes and policies are inconsistently applied due to human error.

Context

Of the 40 sliding fee eligible patients selected for testing, one was given an incorrect sliding fee per the Organization's policy which resulted in increased charges based on the ability to pay. We also noted one patient that received a sliding fee did not have a sliding fee application on file.

Recommendation

We recommend the Organization review policies and processes for providing sliding fee adjustments to patients and provide additional training. We would also recommend the Organization consider the review of patient sliding fee eligibility as part of the Organization's ongoing quality control monitoring.

Management's Response

Management has put controls in place to ensure staff are trained appropriately on the policy and procedure for providing sliding fee adjustments and sliding fee documentation is audited frequently.

**LA FAMILIA MEDICAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section IV – Prior Year Findings

2018-001: CONTROL OVER THE FINANCIAL REPORTING PROCESS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Summary

It was noted during our prior year audit that the Organization did not have controls in place to ensure the financial statements and related notes to the financial statements were complete.

Status: Implemented.

2018-002: JOURNAL ENTRY PROCESS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Summary

It was noted during our prior year audit that the Chief Financial Officer had the ability to create and post their own journal entries. We further noted entries created and posted by the Chief Financial Officer were not reviewed and approved prior to posting.

Status: Implemented.

2018-003: SPECIAL TESTS AND PROVISIONS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Summary

As part of our audit, we noted the Organization did not have adequate internal controls designed to ensure the proper sliding fee discount was calculated and applied to a patient's account.

Status: See current year finding 2019-002.

**LA FAMILIA MEDICAL CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency/ Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Health Center Program Cluster			
* Consolidated Health Centers	93.224	H80CS00606	\$ 1,225,366
* Affordable Care Act for New and Expanded Services	93.527	H80CS00606	<u>3,774,894</u>
Total Health Center Program Cluster Subtotal			<u>5,000,260</u>
 Health Infrastructure Investment Program	 93.526	 C8DCS29731	 <u>456,650</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,456,910</u></u>

* Major Federal Program

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This note is included to meet the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requirement that the schedule of expenditures of federal awards (the Schedule) include notes that describe the significant accounting policies used in preparing the Schedule. The accompanying schedule is prepared on the accrual basis of accounting and includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

