

# **Centro De Salud Familiar La Fe, Inc.**

Accountants' Reports and Financial Statements

November 30, 2012 and 2011

**Centro De Salud Familiar La Fe, Inc.**  
**November 30, 2012 and 2011**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
Centro De Salud Familiar La Fe, Inc.  
El Paso, Texas

We have audited the accompanying balance sheets of Centro De Salud Familiar La Fe, Inc. (the "Organization") as of November 30, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centro De Salud Familiar La Fe, Inc. as of November 30, 2012 and 2011, and the results of its operations, 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.

As discussed in *Note 1*, in 2012 the Organization changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update 2011-07.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2013, on our consideration of the Organization's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, 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. This information has been subjected to the auditing procedures applied in the audits 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 the 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.

*BKD, LLP*

April 19, 2013

# Centro De Salud Familiar La Fe, Inc.

## Balance Sheets

November 30, 2012 and 2011

### Assets

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,604,902	\$ 1,869,050
Short-term investments	2,307,717	1,983,285
Patient accounts receivable, net of allowance; 2012 - \$1,536,721, 2011 - \$1,215,000	406,544	735,908
Grants and other receivables	252,351	353,718
Contributions receivable	12,500	26,436
Due from affiliated entities	337,299	323,163
Inventories	110,580	90,144
Prepaid expenses and other	77,284	212,165
	<u>6,109,177</u>	<u>5,593,869</u>
<b>Total current assets</b>		
	<u>-</u>	<u>316,202</u>
<b>Investments</b>		
<b>Property and Equipment, At Cost</b>		
Land	1,826,663	3,051,581
Buildings and improvements	16,181,443	16,258,719
Equipment	3,593,864	3,554,663
Construction in progress	370,766	207,141
	<u>21,972,736</u>	<u>23,072,104</u>
Less accumulated depreciation	7,268,272	6,568,896
	<u>14,704,464</u>	<u>16,503,208</u>
<b>Other Assets</b>		
Notes receivable	51,436	52,667
	<u>51,436</u>	<u>52,667</u>
<b>Total assets</b>	<u>\$ 20,865,077</u>	<u>\$ 22,465,946</u>

## Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 31,500	\$ 31,500
Accounts payable	388,523	275,128
Accrued expenses	793,015	841,122
Deferred grant revenue	80,738	62,358
	<u>1,293,776</u>	<u>1,210,108</u>
Total current liabilities	1,293,776	1,210,108
<b>Long-Term Debt</b>		
	<u>136,113</u>	<u>167,613</u>
Total liabilities	<u>1,429,889</u>	<u>1,377,721</u>
<b>Net Assets</b>		
Unrestricted	19,367,417	20,978,268
Temporarily restricted	67,771	109,957
	<u>19,435,188</u>	<u>21,088,225</u>
Total net assets	19,435,188	21,088,225
Total liabilities and net assets	<u>\$ 20,865,077</u>	<u>\$ 22,465,946</u>

**Centro De Salud Familiar La Fe, Inc.**  
**Statements of Operations**  
**Years Ended November 30, 2012 and 2011**

	<b>2012</b>	<b>2011 (Adjusted - Note 1)</b>
	<b>2012</b>	<b>2011 (Adjusted - Note 1)</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 8,031,807	\$ 8,797,421
Provision for uncollectible accounts	321,818	208,800
Net patient service revenue less provision for uncollectible accounts	7,709,989	8,588,621
Grant revenue	8,104,564	8,631,415
Contribution revenue	2,713,120	2,498,165
Other	645,638	548,962
Net assets released from restrictions used for operations	74,040	46,046
	19,247,351	20,313,209
<b>Expenses</b>		
Salaries and wages	9,395,264	10,062,681
Employee benefits	2,049,056	2,544,629
Supplies and other	7,394,464	7,541,046
Rent	136,161	138,886
Depreciation	740,390	733,204
	19,715,335	21,020,446
<b>Operating Loss</b>	(467,984)	(707,237)
<b>Other Income</b>		
Investment return	25,653	34,405
	25,653	34,405
<b>Deficiency of Revenues Over Expenses</b>	(442,331)	(672,832)
Transfers to La Fe Community Development Corporation	(2,795)	(17,107)
Transfers to Centro De Salud Holdings	-	(60,843)
Transfers to La Fe Preparatory School	(15,000)	-
Transfers to MPV Development	(1,299,855)	-
Contributions of and for property and equipment acquisitions	21,000	575,397
Grants for acquisition of property and equipment	128,130	943,487
	(1,610,851)	768,102
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ (1,610,851)</b>	<b>\$ 768,102</b>

**Centro De Salud Familiar La Fe, Inc.**  
**Statements of Changes in Net Assets**  
**Years Ended November 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (442,331)	\$ (672,832)
Transfers to La Fe Community Development Corporation	(2,795)	(17,107)
Transfers to Centro De Salud Holdings	-	(60,843)
Transfers to La Fe Preparatory School	(15,000)	-
Transfers to MPV Development	(1,299,855)	-
Contributions of and for property and equipment acquisitions	21,000	575,397
Grants for acquisition of property and equipment	<u>128,130</u>	<u>943,487</u>
Increase (decrease) in unrestricted net assets	<u>(1,610,851)</u>	<u>768,102</u>
<b>Temporarily Restricted Net Assets</b>		
Contribution revenue	58,290	100,466
Net assets released from restriction	(74,040)	(46,046)
Restricted awards not received	<u>(26,436)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(42,186)</u>	<u>54,420</u>
<b>Change in Net Assets</b>	(1,653,037)	822,522
<b>Net Assets, Beginning of Year</b>	<u>21,088,225</u>	<u>20,265,703</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 19,435,188</u></u>	<u><u>\$ 21,088,225</u></u>

**Centro De Salud Familiar La Fe, Inc.**  
**Statements of Cash Flows**  
**Years Ended November 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Change in net assets	\$ (1,653,037)	\$ 822,522
Items not requiring (providing) operating cash		
Depreciation	740,390	733,204
Grants for acquisition of property and equipment	(128,130)	(943,487)
Contributions of and for property and equipment acquisitions	(21,000)	(575,397)
Transfer of property and equipment to MPV Development	1,299,855	-
Changes in		
Patient accounts receivable, net	329,364	214,553
Grants receivable	101,367	538,489
Contributions receivable	13,936	(13,936)
Estimated amounts due from third-party payers	-	33,151
Other current assets and liabilities	119,920	(129,847)
Accounts payable and accrued expenses	65,288	(931,033)
Net cash provided by (used in) operating activities	867,953	(251,781)
<b>Investing Activities</b>		
Purchase of investments	(20,792)	(24,172)
Proceeds from sale of investments	12,562	626,000
Purchase of property and equipment	(241,501)	(1,040,014)
Net cash used in investing activities	(249,731)	(438,186)
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	128,130	943,487
Principal payments on long-term debt	(10,500)	(9,625)
Net cash provided by financing activities	117,630	933,862
<b>Increase in Cash and Cash Equivalents</b>	735,852	243,895
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,869,050	1,625,155
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,604,902	\$ 1,869,050
<b>Supplemental Cash Flows Information</b>		
Long-term debt forgiven by lender	\$ 21,000	\$ 575,397
Transfer of property and equipment to MPV Development	\$ 1,299,855	\$ -

**Centro De Salud Familiar La Fe, Inc.**  
**Notes to Financial Statements**  
**November 30, 2012 and 2011**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Centro De Salud Familiar La Fe, Inc. (the “Organization”) primarily earns revenues by providing health care services through clinics and special programs located in El Paso, Texas and the surrounding areas.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At November 30, 2012 and 2011, cash equivalents consisted primarily of money market deposit accounts and treasury bills.

At November 30, 2012, the Organization’s cash accounts exceeded federally insured limits by approximately \$2,177,000.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

***Investments and Investment Return***

Investments in certificates of deposit are valued at cost. Investment return includes interest income and is reported in the statements of operations as a component of unrestricted net assets.

***Change in Accounting Principle***

In 2012, the Organization changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and to provide enhanced disclosures around the Organization’s policies related to uncollectible accounts. The change had no effect on prior year change in net assets.

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

	<b>As Adjusted</b>	<b>As Previously Reported</b>	<b>Effect of Change</b>
Provision for uncollectible accounts	\$ (208,800)	\$ -	\$ (208,800)
Net patient service revenue	8,588,621	8,797,421	(208,800)
Total expenses and losses	21,020,446	21,229,246	(208,800)

### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients was 97% and 96% of self-pay accounts receivable at November 30, 2012 and 2011, respectively. In addition, the Organization's write-offs decreased approximately \$1,044,000 from approximately \$1,045,000 for the year ended November 30, 2012, to approximately \$1,000 for the year ended November 30, 2011.

### ***Inventories***

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

**Centro De Salud Familiar La Fe, Inc.**  
**Notes to Financial Statements**  
**November 30, 2012 and 2011**

***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from various federal agencies and the City of El Paso, Texas. Such items may be reclaimed by the federal government or the City of El Paso if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

***Long-Lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended November 30, 2012 and 2011.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

***Net Patient Service Revenue***

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**Centro De Salud Familiar La Fe, Inc.**  
**Notes to Financial Statements**  
**November 30, 2012 and 2011**

***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

***Government Grant Revenue***

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

***Donated Supplies***

The Organization recognizes donated medical supplies and pharmaceuticals at fair value. Donated supplies totaling \$2,659,106 and \$2,436,335 are recorded as contribution revenue and supplies and other expense for the years ended November 30, 2012 and 2011, respectively.

***Income Taxes***

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

***Deficiency of Revenues Over Expenses***

The statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include, permanent contributions to and from affiliates for other than goods and services and contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets).

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

### **Reclassifications**

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

### **Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

### **Note 2: Grant Revenue**

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of El Paso, Texas, and the surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended November 30, 2012 and 2011, the Organization recognized \$5,147,551 and \$5,065,611 in CHC grant revenue, respectively. The Organization has been approved for funding in the amount of \$5,147,551 for the year ending November 30, 2013.

The Organization was awarded \$4,290,945 under the Affordable Care Act (ACA) - Capital Development Grant program for the period of May 1, 2012, to April 30, 2015, for construction and renovation at the San Elizario Satellite Clinic. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended November 30, 2012 and 2011, the Organization recognized \$53,445 and \$0, respectively, in these grant funds. The Organization was also awarded \$498,450 under the Affordable Care Act (ACA) - Capital Development Grant program for the period of May 1, 2012, to April 30, 2014, for renovation of the Central Lab facility. During the years ended November 30, 2012 and 2011, the Organization recognized \$19,127 and \$0, respectively, in these grant funds.

In addition to the above grants, the Organization 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 3: Net Patient Service Revenue**

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of 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 payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

*Medicare:* Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare administrative contractor. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid:* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended November 30, 2012 and November 30, 2011, was approximately:

	<b>2012</b>	<b>2011</b>
Medicaid	\$ 3,569,682	\$ 4,024,803
Medicare	477,328	476,304
Self-pay	2,613,582	2,932,999
Other third-party payers	1,371,215	1,363,315
Total	<u>\$ 8,031,807</u>	<u>\$ 8,797,421</u>

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

### Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at November 30, 2012 and 2011, was:

	<u>2012</u>	<u>2011</u>
Medicare	22%	14%
Medicaid	52%	73%
Other third-party payers and patients	26%	13%
	<u>100%</u>	<u>100%</u>

### Note 5: Investments and Investment Return

#### *Short-Term Investments*

Short-term investments include:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 2,307,717	\$ 1,983,285

#### *Long-Term Investments*

Long-term investments include:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ -	\$ 316,202

#### *Investment Return*

Total investment return is comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 25,653	\$ 34,405

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

### Note 6: Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its practicing providers 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 functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

In 2012, the Organization adopted the provisions of Accounting Standards Update (ASU) 2010-24 *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America require a health care provider to accrue only an estimate of the malpractice claims cost for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Organization's financial statements.

Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice cost for the years ended November 30, 2012 and 2011. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

### Note 7: Long-Term Debt

At November 30, 2012 and 2011, the Organization's long-term debt consisted of:

	<b>2012</b>	<b>2011</b>
Note payable, City of El Paso (A)	\$ 84,000	\$ 105,000
Note payable, City of El Paso (B)	83,613	94,113
	<u>167,613</u>	<u>199,113</u>
Less current maturities	<u>31,500</u>	<u>31,500</u>
	<u>\$ 136,113</u>	<u>\$ 167,613</u>

- (A) Note payable to City of El Paso due in monthly installments of \$1,750 beginning in February 2003. The City of El Paso received funding for this loan through a formula grant from the U.S. Department of Housing and Urban Development (HUD) under the HOME Investment Partnerships Program. The note bears no interest and payments are forgivable so long as the Organization complies with certain terms of the HOME Financial Terms Contract. For the years ended November 30, 2012 and 2011, installments of \$21,000, were forgiven and are recorded as contributions of property and equipment. The loan is secured by property.

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

- (B) Note payable to City of El Paso due in monthly installments of \$875 beginning in February 2003. The City of El Paso received funding for this loan through a formula grant from HUD under the HOME Investment Partnerships Program. The note bears no interest and the Organization is subject to complying with certain terms of the HOME Financial Terms Contract. The loan is secured by property.

Aggregate annual maturities of long-term debt at November 30, 2012, are:

2013	\$	31,500
2014		31,500
2015		31,500
2016		31,500
2017		10,500
Thereafter		<u>31,113</u>
	\$	<u>167,613</u>

### Note 8: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Health care services and special projects	\$ 67,771	\$ 109,957

During 2012, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purpose of health services and special projects in the amounts of \$74,040.

During 2011, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purpose of health services and dental services in the amounts of \$46,046.

### Note 9: Functional Expenses

The Organization provides health care services to residents within its service area. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 13,300,884	\$ 13,753,660
General and administrative	<u>6,414,451</u>	<u>7,266,786</u>
	<u>\$ 19,715,335</u>	<u>\$ 21,020,446</u>

**Centro De Salud Familiar La Fe, Inc.**  
**Notes to Financial Statements**  
**November 30, 2012 and 2011**

**Note 10: Retirement Plan**

The Organization has a 403(b) defined contribution plan covering substantially all employees. The Organization contributes 3% of each eligible employee's gross compensation if the individual employee contributes at least 2% of their eligible gross compensation to the plan. The Organization contributes 4% of each eligible employee's gross compensation if the individual employee contributes at least 3% of their eligible gross compensation to the plan. The Organization incurred retirement expense of \$219,286 and \$219,263 for the years ended November 30, 2012 and 2011, respectively.

**Note 11: Related Party Transactions**

***La Fe Community Development Corporation and La Fe Preparatory School***

The La Fe Community Development Corporation (CDC) and the La Fe Preparatory School (the "School") became one entity in November 2008 whose board of directors includes some members of the management team of the Organization and other members of the community. CDC provides affordable housing, housing counseling, community and economic development and other related services and the School operates a charter school in El Paso, Texas.

During the years ended November 30, 2012 and 2011, the Organization made general donations for operating expenses to CDC and the School in the amounts of \$17,795 and \$17,107, respectively. Amounts due from CDC and the School for reimbursement of expenses paid by the Organization of \$243,875 and \$257,074 are included in current assets at November 30, 2012 and 2011, respectively.

The Organization guaranteed a real estate note dated August 28, 2009, for the School. At November 30, 2011, the total outstanding balance on the guaranteed loan was approximately \$1,460,000. At November 30, 2012, the total outstanding balance on the guaranteed loan was approximately \$1,430,000. At November 30, 2012 and 2011, the Organization was holding a \$500,000 certificate of deposit in short-term investments as collateral on the loan.

***La Fe Preparatory Foundation***

The board of directors of La Fe Preparatory Foundation (the "Foundation") is comprised of the management team of the Organization. The School is the parent company of the Foundation. During the years ended November 30, 2012 and 2011, the Organization made no donations to the Foundation.

***Centro De Salud Holdings***

The board of directors of Centro De Salud Holdings (the "Holding Company") is comprised of the management team of the Organization. During the years ended November 30, 2012 and 2011, the Organization made general donations of \$0 and \$60,483, respectively, to the Holding Company. The Holding Company will house a number of organizations that will provide community and economic development in El Paso, Texas.

# Centro De Salud Familiar La Fe, Inc.

## Notes to Financial Statements

November 30, 2012 and 2011

### ***MPV Development***

The board of directors of MPV Development, Inc. ("MPV") includes one member of the management team of the Organization and other members of the community. MPV owns and operates an apartment building in the city of El Paso, Texas. During the years ended November 30, 2012 and 2011, the Organization made asset donations of \$1,299,855 and \$0, respectively, to MPV. Amounts due from MPV for reimbursement of expenses paid by the Organization in the amounts of \$93,424 and \$66,089 are included in current assets at November 30, 2012 and 2011, respectively.

### **Note 12: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

#### ***Grant Revenues***

Concentration of revenues related to grant awards and other support are described in *Note 2*.

#### ***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

#### ***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Note 6*.

#### ***Litigation***

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Organization's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

# **Centro De Salud Familiar La Fe, Inc.**

## **Notes to Financial Statements**

**November 30, 2012 and 2011**

### ***Current Economic Conditions***

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the Affordable Care Act, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

## **Supplementary Information**

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2012**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00128-11-02	\$ 3,066,670
Affordable Care Act Grants for New and Expanded Services Under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80CS 00128-11-02	<u>2,080,881</u>
				<u>5,147,551</u>
Senior Companion Program	Corporation for National and Community Service	94.016	11 SCWTX002	263,794
Senior Companion Program	Corporation for National and Community Service/Texas Department of State Health Services	94.016	11 SCWTX005	<u>3,777</u>
				<u>267,571</u>
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1C8ACS23184-01-00	53,445
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1C8BCS23986-01-00	<u>19,127</u>
				<u>72,572</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA 00122-22-03	982,480
Ryan White Title III HIV Capacity Development and Planning Grants	U.S. Department of Health and Human Services	93.918	1 P06HA 23187-01-00	<u>96,483</u>
				<u>1,078,963</u>
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	U.S. Department of Agriculture/Texas Department of State Health Services	10.557	2012-039993 / 2013-042706	<u>329,532</u>
Latino Empowment Through National Services (LENS)	Corporation for National and Community Service/National Council of La Raza	94.006	12ND135769	<u>54,084</u>
Total forward				6,950,273

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2012**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Total forward				\$ 6,950,273
HIV Care Formula Grants	U.S. Department of Health and Human Services/Texas Department of State Health Services/Starcare Specialty Health System	93.917		646,279
AIDS Education and Training Centers	U.S. Department of Health and Human Services/Texas-Oklahoma AIDS Education and Training Center/Dallas County Hospital District	93.145	4450	38,033
Family Planning Services	U.S. Department of Health and Human Services/Texas Department of State Health Services	93.217	2012-040725	66,258
Immunization Cooperative Agreements	U.S. Department of Health and Human Services/Texas Department of State Health Services	93.268	2012-040405	<u>22,588</u>
Total expenditures of federal awards				<u>\$ 7,723,431</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Centro De Salud Familiar La Fe, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Centro De Salud Familiar La Fe, Inc. did not provide a federal award to a subrecipient during the year ended November 30, 2012.

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Expenditures of State Awards**  
**Year Ended November 30, 2012**

State Program Name	State Agency/Pass-Through Entity	Identifying Number	Amount Expended
Primary Health Care	Department of State Health Services	2012-039395 / 2013-041881	\$ 111,601
Community Outreach and Assistance Services	Health and Human Services Commission	529-06-0405-00006	116,119
State Services	Department of State Health Services/ Starcare Specialty Health System		<u>219,868</u>
	Total state awards		<u><u>\$ 447,588</u></u>

**Notes to Schedule**

1. This schedule includes the state awards activity of Centro De Salud Familiar La Fe, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Texas *Uniform Grant Management Standards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Centro De Salud Familiar La Fe, Inc. did not provide a state award to a subrecipient during the year ended November 30, 2012.

## **Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Centro De Salud Familiar La Fe, Inc.  
El Paso, Texas

We have audited the financial statements of Centro De Salud Familiar La Fe, Inc. (the "Organization") as of and for the year ended November 30, 2012, and have issued our report thereon dated April 19, 2013, which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether 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 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*.

Board of Directors  
Centro De Salud Familiar La Fe, Inc.

This report is intended solely for the information and use of the governing body, management and others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

April 19, 2013

## **Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Centro De Salud Familiar La Fe, Inc.  
El Paso, Texas

### **Compliance**

We have audited the compliance of Centro De Salud Familiar La Fe, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of Centro De Salud Familiar La Fe, Inc. based on our audit.

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

In our opinion, Centro De Salud Familiar La Fe, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2012.

### **Internal Control Over Compliance**

The management of Centro De Salud Familiar La Fe, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Board of Directors  
Centro De Salud Familiar La Fe, Inc.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management, others within the Organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

April 19, 2013

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended November 30, 2012**

**Summary of Auditor's Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?  

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?  

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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7. The Organization's major programs were:

Cluster/Programs	CFDA Number
Consolidated Health Centers	93.224 and 93.527
HIV Care Formula Grants	93.917
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended November 30, 2012**

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended November 30, 2012**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Centro De Salud Familiar La Fe, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended November 30, 2012**

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Centro De Salud Familiar La Fe, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended November 30, 2012**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
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No matters are reportable.