# ARTESIA SPECIAL HOSPITAL DISTRICT

**EDDY COUNTY, NEW MEXICO**

**FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2009 AND 2008**

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**INTRODUCTORY SECTION**

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**Artesia Special Hospital District**
Official Roster
June 30, 2009

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**Artesia Special Hospital District**
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June 30, 2009


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**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
The Board of Trustees and
Management of Artesia Special Hospital District
Artesia, New Mexico

We have audited the accompanying financial statements of the business-type activity of Artesia Special Hospital District (the District), a political subdivision of the State of New Mexico as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited Schedule III - Schedule of Revenues and Expenses with Budget Comparison presented as supplementary information for the year ended June 30, 2009. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons for the enterprise fund for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The management's discussion and analysis on pages 12 through 16 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budgetary comparison of the District. The supplemental schedules, Schedule I – Schedule of Collateral Pledged by Depository for Public Funds and Schedule II – Schedule of Deposit and Investment Accounts, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedule I – Schedule of Collateral Pledged by Depository for Public Funds and Schedule II – Schedule of Deposit and Investment Accounts have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Certified Public Accountants

Albuquerque, New Mexico
October 13, 2009

## - MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Artesia Special Hospital District's (District) financial performances provides an overview of the District's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the District's financial statements.

### Financial Highlights

- The District's change in unrestricted net assets between 2009 and 2008 was $(288,931) or an 11.9% decrease mainly due to operating (expenses) exceeding the operating revenue by $1,554,747. Non-operating revenues exceeded non-operating expenses primarily because general obligation bond mill levy collections are used to pay both principal and interest but the principal payments are not an expense item. Principal payment on general obligation bond debt was $1,625,000 in 2009. The District also continued to benefit from interest earnings on proceeds from the $8,000,000 general obligation bond issuance in November 2006.
- The District reported an operating loss of $1,536,203 in 2008 and $1,554,747 in 2009 mainly due to large depreciation deductions that exceed operating revenues. While the District receives operating mill levy collections that exceed depreciation deductions, these collections are passed through to Artesia General Hospital ("AGH") under the terms of the District's lease agreement with the AGH. The District does receive lease income from AGH that is sufficient to cover all operating expenses except depreciation. Excluding depreciation, the District has operating income of $199,155 in 2009. The large depreciation deductions are due to the completion of a $20,000,000 expansion of the District's hospital facilities in November 2006 along with the ongoing renovation project. This expansion was funded by proceeds from the $20,000,000 and $8,000,000 general obligation bond issuances approved by voters in August 2004 and November 2006, respectively.
- Personal property values increased in 2008-2009 resulting in an Operating mill levy tax revenue increase of $472,669 or 46.31%.
- The 2009 General Obligation Bond mill levy was $3,089,834 in 2009 and $3,386,268 in 2008.
- Construction in progress decreased $449,054 for renovation and new construction for the Hospital.
- Accounts payable decreased $166,662 due to the repayment of many construction payables.

### Using This Annual Report

The District's financial statements consist of three statements— Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

### The Statements of Net Assets and Statements of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the District finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

The District is a unique organization in the fact that it does not have normal operations. The District is a governmental entity that its sole purpose is to own District assets and collect Mill Levy funds. The District has suffered large losses over the years but it is mainly depreciation expense. The cash portion of the District is sound.

**Table 1: Assets, Liabilities, and Net Assets**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Assets:** | | | |
| Current assets | $ 3,267,321 | $ 3,714,636 | $ 2,085,866 |
| Capital assets | 29,026,093 | 30,194,890 | 30,246,686 |
| Other non-current assets | 5,535,517 | 4,024,548 | 7,199,868 |
| **Total assets** | **$ 37,828,931** | **$ 37,934,074** | **$ 39,532,420** |
| **Liabilities:** | | | |
| Long term obligations outstanding | 22,482,146 | 24,107,113 | 26,362,663 |
| Other current and non-current liabilities | 2,541,806 | 2,098,785 | 3,588,580 |
| **Total Liabilities** | **25,023,952** | **26,205,898** | **29,951,243** |
| **Net assets:** | | | |
| Invested in capital assets net of related debt | 6,537,642 | 5,922,574 | 4,284,724 |
| Restricted for general care | 154,672 | 154,672 | 154,672 |
| Restricted for debt service | 3,766,536 | 3,015,870 | 3,033,537 |
| Unrestricted | 2,346,129 | 2,635,060 | 2,108,244 |
| **Total net assets** | **12,804,979** | **11,728,176** | **9,581,177** |
| **Total liabilities and net assets** | **$ 37,828,931** | **$ 37,934,074** | **$ 39,532,420** |

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balances during the reporting period?”

**The District’s Net Assets**

The District’s net assets are the difference between its assets and liabilities reported in the Statements of Net Assets. The District’s net assets increased $1,076,803 or 9.2% as you can see from Table 1.

During Fiscal year 2005, the voters approved a $20,000,000 bond issue to help with a major expansion and renovation of the District facilities. The election for the bond issue was held August 2004. During fiscal year 2007, the voters approved a bond issue to expand, equip, furnish, remodel and renovate the District facilities. The election for the bond issue was held the first part of August 2006.

## Operating Results and Changes in the District Net Assets

In the year of 2009, the District's net assets increased $1,076,803 as you can see in Table 2.

**Table 2: Operating Results and Changes in the District's Net Assets**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Operating revenues:** | | | |
| Mill levy taxes | $ 4,340,675 | $ 3,854,531 | $ 3,107,031 |
| Less amounts passed | | | |
| through to : AGH | (3,617,229) | (3,170,671) | (2,754,661) |
| Dialysis unit | (723,446) | (657,241 | (352,370) |
| Lease income | 250,004 | 250,004 | 125,004 |
| Other | 10,067 | 845 | 3,692 |
| **Total operating revenues** | 260,071 | 277,468 | 128,696 |
| **Operating expenses** | | | |
| Miscellaneous | 14,743 | 45,668 | 26,187 |
| Professional fees | 46,173 | 67,061 | 80,441 |
| Depreciation and | | | |
| amortization | 1,753,902 | 1,700,942 | 1,049,151 |
| **Total operating expenses** | 1,814,818 | 1,813,671 | 1,155,779 |
| **Operating loss** | (1,554,747) | (1,536,203) | (1,027,083) |
| **Nonoperating revenues and expenses** | | | |
| G.O. Bond mill levy | 3,089,834 | 3,386,268 | 2,503,935 |
| Investment income | 79,195 | 116,195 | 407,905 |
| Interest expense | (846,129) | (816,189) | (814,714) |
| **Total nonoperating revenues (expenses)** | 2,322,900 | 2,686,274 | 2,097,126 |
| **Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments** | 768,153 | 1,150,071 | 1,070,043 |
| Restricted contributions | – | 1,020 | – |
| Capital grants | 308,650 | 995,908 | 48,171 |
| **Increase in net assets** | 1,076,803 | 2,146,999 | 1,118,214 |
| **Net assets beginning of year** | 11,728,176 | 9,581,177 | 8,462,963 |
| **Net assets end of year** | $ 12,804,979 | $ 11,728,176 | $ 9,581,177 |

**Operating Income/(Loss)**

Operating income/(loss) consists of three main items. One, the mill levy funds ($4,340,675 in 2009) are collected and paid directly to the dialysis unit and the management company operating the Hospital. The mill levy funds consists of ad valorem taxes, which are received 60 days after collection and oil and gas revenue, which are received 30 days after collection. Eddy County oversees the distribution of these funds. The management company must spend these funds on the operation of the District. The second component is lease income. The lease income is from the management company for the lease of the hospital. A new lease agreement began in October 2004 and expires in October of 2009. The third component is other which primarily consists of bad debt recoveries and various other payments from operations from years past.

**Non-operating Revenues and Expenses**

Non-operating revenues and expenses consist primarily of the General Obligation Bond mill levy. The other components of non-operating revenues and expenses relate to investment income and investment expense. The District's cash is invested in Certificate of Deposits and Money Market Accounts.

**Grants, Contributions, and Endowments**

The District received capital grant revenue from state agencies for the purchase of equipment. These are discussed in detail in Note 1.

**The District Cash Flows**

Changes in the District cash flows are consistent with changes in operating losses and non-operating revenues and expenses, discussed earlier.

**Significant variances between final budget and actual**

There were no significant variances noted between the final budget and actual revenue and expenses.

**Capital Assets**

At the end of 2009, the District had $29,026,093 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2009, the District purchased equipment costing $175,000 and reclassified $848,155 from CIP for total buildings and improvement additions of $853,713.

In 2005 the District began a 65,000 square feet expansion of its hospital facilities. This expansion was funded by proceeds from the issuance of $20,000,000 in general obligation bonds approved by voters in August 2004. Actual construction of the expansion project was completed in November 2006.

The District also began renovations of existing hospital facilities in December 2006 funded by proceeds from the issuance of $8,000,000 in general obligation bonds approved by voters in August 2006. The renovation work was completed in May 2009.

**Debt**

The District had $20,812,146, net of current maturities of $1,670,000, of General Obligation Bonds outstanding as outlined in Note 8 to the financial statements. Debt was incurred for renovations and new construction for the Hospital.

## Subsequent Events

The District signed a renewal of their lease agreement with the Hospital. The lease changed to an annual payment of $378,000, to be paid in monthly payments of $31,500 beginning November 1, 2009.

The operational mill levy was renewed for tax years 2010 through 2013.

## Contacting the District Financial Management

The financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Board Chairman, at Artesia Special Hospital District, P. O. Box 628, Artesia, New Mexico 88210.

**BASIC FINANCIAL STATEMENTS**

**Artesia Special Hospital District**
Statement of Net Assets
June 30, 2009 and 2008

## Assets

| | 2009 | 2008 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents (Note 2) | $ 2,263,771 | $ 2,494,249 |
| Mill levy receivable, net of uncollectible amounts (Note 5) | 873,892 | 1,088,090 |
| Rent receivable | 125,000 | 125,000 |
| Accrued interest receivable | 4,658 | 7,297 |
| **Total current assets** | 3,267,321 | 3,714,636 |
| **Noncurrent cash and investments** | | |
| Cash restricted by donor for cardiac and general care | 5,014 | 24,866 |
| Cash restricted by donor for dialysis unit | 1,674,929 | 859,817 |
| Cash restricted by bond indenture for debt service | 3,766,536 | 3,015,870 |
| Cash restricted by bond indenture for construction | - | 29,510 |
| **Total noncurrent assets** | 5,446,479 | 3,930,063 |
| **Capital Assets** | | |
| Land | 60,052 | 60,052 |
| Depreciable capital assets, net of accumulated depreciaton | 28,966,041 | 29,685,784 |
| Construction in progress (Note 7) | - | 449,054 |
| **Net capital assets** | 29,026,093 | 30,194,890 |
| **Other Assets** | | |
| Bond issuance costs net of accumulated amortization $19,910 in 2009 and $14,463 in 2008 | 89,038 | 94,485 |
| **Total assets** | $ 37,828,931 | $ 37,934,074 |

The accompanying notes are an integral part of these statements.

**Artesia Special Hospital District**
Statement of Net Assets
June 30, 2009 and 2008

**Liabilities and Net Assets**

| | 2009 | 2008 |
|---|---|---|
| **Current Liabilities** | | |
| Current portion of long-term debt | $ 1,670,000 | $ 1,625,000 |
| Due to AGH | 421,401 | 483,804 |
| Due to Dialysis Unit | 1,759,209 | 1,028,056 |
| Accounts payable (Note 6) | 6,305 | 172,967 |
| Retainage payable (Note 6) | - | 21,746 |
| Accrued bond interest payable (Note 6) | 354,891 | 384,617 |
| Estimated third-party payor settlements (Note 4) | - | 7,595 |
| **Total current liabilities** | 4,211,806 | 3,723,785 |
| **Long Term Liabilities** | | |
| Long-term debt, net of current maturities (Note 8) | 20,812,146 | 22,482,113 |
| **Total liabilities** | 25,023,952 | 26,205,898 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 6,537,642 | 5,922,574 |
| Restricted, expendable for: | | |
| General care | 154,672 | 154,672 |
| Debt service | 3,766,536 | 3,015,870 |
| Unrestricted | 2,346,129 | 2,635,060 |
| **Total net assets** | 12,804,979 | 11,728,176 |
| **Total liabilities and net assets** | $ 37,828,931 | $ 37,934,074 |

The accompanying notes are an integral part of these statements.

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**Artesia Special Hospital**
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| **Operating Revenues** | | |
| Mill levy taxes | | |
| Ad-valorem taxes | $ 1,493,319 | $ 1,020,650 |
| Oil and gas taxes | 2,847,356 | 2,833,881 |
| Less amounts passed through to AGH | (3,617,229) | (3,170,671) |
| Less amounts passed through to Dialysis Unit | (723,446) | (657,241) |
| Lease income | 250,004 | 250,004 |
| Other | 10,067 | 845 |
| **Total operating revenues** | 260,071 | 277,468 |
| **Operating Expenses** | | |
| Miscellaneous | 96 | 24,892 |
| Contract labor | - | - |
| Advertising | 1,363 | 1,234 |
| Insurance | 10,506 | 10,830 |
| Professional fees | 46,173 | 67,061 |
| Rentals and Leases | 2,778 | 8,712 |
| Depreciation and amortization | 1,753,902 | 1,700,942 |
| **Total operating expenses** | 1,814,818 | 1,813,671 |
| **Operating (loss)** | (1,554,747) | (1,536,203) |
| **Nonoperating Revenues (Expenses):** | | |
| GO Bond mill levy | 3,089,834 | 3,386,268 |
| Investment income | 79,195 | 116,195 |
| Interest expense | (846,129) | (816,189) |
| **Total nonoperating revenues and expenses** | 2,322,900 | 2,686,274 |
| Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments | 768,153 | 1,150,071 |
| Contributions restricted to capital improvements | - | 1,020 |
| Capital grants | 308,650 | 995,908 |
| **Increase in net assets** | 1,076,803 | 2,146,999 |
| **Net Assets - beginning of the year** | 11,728,176 | 9,581,177 |
| **Net Assets - end of the year** | $ 12,804,979 | $ 11,728,176 |

The accompanying notes are an integral part of these statements.

**Artesia Special Hospital District**

Statements of Cash Flows

June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Receipts from customers and users | $ 2,472 | $ 845 |
| Receipts from leases | 250,004 | 125,004 |
| Payments to vendors | (56,248) | (86,110) |
| ***Net cash provided by operating activities*** | **196,228** | **39,739** |
| ***Cash flows from non-capital financing activities:*** | | |
| Mill levy taxes | 4,415,559 | 3,622,178 |
| Pass through of mill levy taxes to AGH | (3,671,924) | (3,030,642) |
| ***Net cash provided by non-capital financing activities*** | **743,635** | **591,536** |
| ***Cash flows from capital and related financing activities:*** | | |
| Capital grant revenue | 308,650 | 995,908 |
| Gift revenue | - | 1,020 |
| Bond mill levy | 3,229,148 | 3,189,113 |
| Purchase of capital assets | (772,735) | (3,915,101) |
| Interest payment on long-term debt | (875,855) | (858,470) |
| Principal payments on long-term debt | (1,625,000) | (2,255,000) |
| ***Net cash provided (used) by capital and related financing activities*** | **264,208** | **(2,842,530)** |
| ***Cash flows from investing activities:*** | | |
| Investment income | 81,867 | 123,810 |
| ***Net cash provided by investing activities*** | **81,867** | **123,810** |
| ***Net increase (decrease) in cash and temporary investments*** | **1,285,938** | **(2,087,445)** |
| ***Cash and temporary investments - beginning of year*** | **6,424,312** | **8,511,757** |
| ***Cash and temporary investments - end of year*** | **$ 7,710,250** | **$ 6,424,312** |
| **Unrestricted cash and cash equivalents** | **$ 2,263,771** | **$ 2,494,249** |
| **Restricted cash and cash equivalents** | | |
| Restricted by donor for cardiac and general care | 5,014 | 24,866 |
| Restricted by donor for dialysis unit | 1,674,929 | 859,817 |
| Restricted for debt service | 3,766,536 | 3,015,870 |
| Restricted for construction | - | 29,510 |
| **Total cash and cash equivalents** | **$ 7,710,250** | **$ 6,424,312** |

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

**Artesia Special Hospital District**
Statements of Cash Flows
June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| ***Reconciliation of operating (loss) to net cash provided by operating activities:*** | | |
| Operating (loss) | $ (1,554,747) | $ (1,536,203) |
| Adjustments to reconcile operating (loss) to net cash flows from operating activities: | | |
| Depreciation and amortization | 1,753,902 | 1,700,942 |
| Increase (decrease) in: | | |
| Accounts payable | 4,668 | - |
| Increase (decrease) in: | | |
| Estimated third-party payor settlements | (7,595) | - |
| Decrease (increase) in: | | |
| Accounts receivable | - | (125,000) |
| Net cash provided by operating activities | $ 196,228 | $ 39,739 |

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

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## NOTE 1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Description of Reporting Entity***

In September 1978, the Artesia Special Hospital District (District) was created pursuant to the New Mexico Special Hospital District Act and under that authority operated Artesia General Hospital (Hospital) until October 31, 1999. The Hospital, which is licensed for 38 beds, began operation on November 14, 1981. The Board of Trustees are elected by the residents of the District pursuant to Chapter 4, Article 48A-6 NMSA 1978 and they are authorized by New Mexico statute to call for a resolution imposing ad valorem taxes on all properties located within the Special Hospital District. The Artesia Special Hospital District has no component units and is not a component unit of another governmental entity.

As of October 31, 1999, the District entered into a series of agreements to lease the hospital to VHA Southwest Community Health Corporation (CHC), a Texas not-for-profit corporation, which CHC will operate through a wholly owned subsidiary, Artesia General Hospital (AGH), a New Mexico not-for-profit corporation. The agreement between the District and CHC/AGH is explained through the following documents:

District Operating Agreement between the District and CHC

CHC retains certain reserved powers as necessary to perform its oversight responsibilities of the ongoing operation of AGH, which, in turn, must remain committed to serving the healthcare needs of all the citizens of Artesia to the extent and manner that the citizens expect from Artesia General Hospital. The District must pay to AGH and dialysis unit the total amount of the mill levy tax that the District receives each year. For the first twelve months of the agreement, however, the District is allowed to reserve 15% of the mill levy tax that it receives to help defray the amount due under the previous management agreement with Presbyterian Healthcare Services (PHS). This agreement has an initial five-year period and will be automatically renewed for two successive five-year periods after that, as long as neither the District nor CHC have given notice of termination at least one hundred and eighty days before the end of the initial or renewal term.

Facility and Equipment Lease Agreement between the District (as landlord) and AGH (tenant)

The leased property consists of land, a hospital building and storage building located in Artesia. Virtually all personal property located at this site as well as two suites in a medical office building and an offsite storage facility.

Under the lease agreement, covering the period from October 31, 2004 to October 31, 2009, the tenant will pay rent to the landlord in the amount of $125,000 annually or 20% of tenant's net income not to exceed $250,000 annually. The tenant must keep and maintain the entire premises in good condition, promptly making all necessary repairs and replacements and maintain adequate coverage through fire, casualty and liability insurance. At the end of the agreement, the District has the option to purchase the personal property purchased by AGH during the term of the agreement at the then book value (as depreciated). See Note 9 for additional information regarding renewal of lease agreement.

***Summary of Significant Accounting Policies***

The summary of significant accounting policies of the District is presented to assist in the understanding of the District's financial statements. The financial statements and notes are the representation of Artesia Special Hospital District's management who is responsible for their integrity and objectivity. The financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

## NOTE 1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting - Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. As initially provided in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and made permanent for enterprise funds by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents – Cash and Cash Equivalents include investments with an original maturity of three months or less. Cash and temporary investments consist of checking accounts and a certificate of deposit maintained at local financial institutions. The certificate of deposit is carried at cost, which approximates fair value.

Capital Assets - State law sets a capitalization threshold of $5,000 for acquisitions of property and equipment. The District has elected to follow State policy. Acquisitions of capital assets are recorded at cost. Improvements and replacements of building and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of revenues, expenses and changes in net assets. The District does not have any infrastructure.

Capital assets donated for healthcare operations are recorded as additions to the donor-restricted plant, replacement and expansion funds at fair value at the date of receipt, and as a transfer to the general fund balance when the assets are placed in service.

Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method. Useful lives are assigned using industry guidelines published by the American Hospital Association and typically range from 3 to 40 years.

Donor-Restricted Funds – Contributed funds, the use of which is specified by donors or grantors, are recorded as additions to restricted fund balance. Resources restricted by donors for specific operating purposes are reported in other operating revenue to the extent used within the period. Restricted amounts are released from restricted fund balance when the restriction imposed by the donor has been satisfied.

Mill Levy – An operating mill levy, approved by the voters of Eddy County, expires in 2009 (See Note 9 for additional information regarding renewal).The District recorded $4,340,675 in 2009 and $3,854,531 in 2008 in mill levy operating revenues. The amounts were used in accordance with the provisions of the property tax referendum. A General Obligation (GO) bond mill levy, approved by voters of Eddy County in November, 2004 and August 2006 will expire in 2019. The District recorded $3,089,834 in 2009 and $3,386,268 in 2008 of mill levy revenue under the GO bond mill levy. The amounts will be used in accordance with the provisions of the property tax referendum.

The District receives mill levy taxes from the Treasurer of Eddy County. The County serves as the intermediary collecting agency and remits the District's share of mill levy tax collections. The District does not maintain detailed records of mill levy taxes receivable by the individual taxpayer.

**NOTE 1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Mill levy property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. The District recognizes revenue from mill levy property taxes in the period for which they are levied, net of estimated refunds and uncollectible amounts.

Grants and Contributions –From time to time, the District receives grants from the State of New Mexico and the City of Artesia as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Net Assets – Net assets of the District are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted.* The Statement of Net Assets reports $3,921,208 of restricted net assets, of which $0 is restricted by enabling legislation.

Operating Revenues and Expenses – The District statements of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with passing mill levy taxes through to the operating company, collecting lease income, and collecting old debts. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to administer the operating revenues.

Revenue Recognition for Derived Tax Revenues – It is the policy of the District to recognize non-exchange revenues for which there are time requirements in the period in which those time requirements are met, regardless of whether the revenues are due or whether an enforceable legal claim to the assets exists. If no time requirements are specified in enabling legislation, revenues are recognized when the District has an enforceable legal claim to the assets or when they are received, whichever occurs first.

Budgets and Budgetary Accounting – Prior to the beginning of each fiscal year, the budget for the general fund of the District is prepared on the non-GAAP budgetary basis by the Chairman and is presented to the District's Board of Trustees (the Board) for review and approval. Upon Board approval, the budget is sent to the Department of Finance and Administration of the State of New Mexico (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when net assets for the prior year are known. Expenditures legally cannot exceed the total budget. Any budget amendments are first reviewed and approved by the Board and then sent to the DFA for state approval. The board is authorized to transfer budgeted amounts between departments; however, any revisions that alter total expenditures must be approved by the DFA. As of June 30, 2009 and 2008, the District was not aware of any non-compliance with these requirements.

Risk Management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters.

**NOTE 1. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments in debt and equity securities - Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned.

Bond issuance cost and amortization – Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

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

Comparability - Certain prior year balances have been reclassified to conform to the June 30, 2009 financial statement presentation.

**NOTE 2. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of the District's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The District is also allowed to invest in United States Government obligations. All funds of the District must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the District. Time deposits, savings deposits and interest bearing NOW accounts of an institution in the same state will be insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. New Mexico State Statutes require collateral to

**NOTE. 2. DEPOSITS AND INVESTMENTS** (continued)

be pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution. As of June 30, 2009 and 2008, $7,210,239 and $6,224,312 of the District's bank balances were exposed to custodial credit risk as follows:

| | First National | Western Bank | Total |
|---|---|---|---|
| Year ended June 30, 2009 | | | |
| Total amount of deposits | $ 6,464,765 | $ 1,245,474 | $ 7,710,239 |
| FDIC Coverage | (250,000) | (250,000) | (500,000) |
| Total uninsured public funds | 6,214,765 | 995,474 | 7,210,239 |
| Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name | 6,148,625 | 995,474 | 7,144,099 |
| Uninsured and uncollateralized | $ 66,140 | $ – | $ – |
| Collateral requirement (50% of uninsured public funds) | $ 3,107,383 | $ 497,737 | $ 3,605,120 |
| Pledged securities | 6,148,625 | 1,062,933 | 7,211,558 |
| Over (under) collateralization | $ 3,041,242 | $ 565,196 | $ 3,606,438 |

| | First National | Western Bank | Total |
|---|---|---|---|
| Year ended June 30, 2008 | | | |
| Total amount of deposits | $ 5,205,130 | $ 1,219,182 | $ 6,424,312 |
| FDIC Coverage | (100,000) | (100,000) | (200,000) |
| Total uninsured public funds | 5,105,130 | 1,119,182 | 6,224,312 |
| Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name | 5,105,130 | 1,103,336 | 6,208,466 |
| Uninsured and uncollateralized | $ - | $ 15,846 | $ 15,846 |
| Collateral requirement (50% of uninsured public funds) | $ 2,552,565 | $ 559,591 | $ 3,112,156 |
| Pledged securities | 5,272,529 | 1,103,335 | 6,375,864 |
| Over (under) collateralization | $ 2,719,964 | $ 543,744 | $ 3,263,708 |

**NOTE. 2. DEPOSITS AND INVESTMENTS** (continued)

Reconciliation to the Statement of Net Assets

The carrying amounts of deposits and investments shown above are included in the District's statements of net assets as follows:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Deposits | $ | 7,710,239 | $ | 6,424,312 |
| Reconciling items | | 11 | | – |
| Carrying amount | $ | 7,710,250 | $ | 6,424,312 |
| Included in the following Statement of Net Assets captions: | | | | |
| Cash and cash equivalents | $ | 2,263,771 | $ | 2,494,249 |
| Non-current cash and investments | | | | |
| Restricted by donor for cardiac and general care | | 5,014 | | 24,866 |
| Restricted by donor for dialysis unit | | 1,674,929 | | 859,817 |
| Restricted for debt service | | 3,766,536 | | 3,015,870 |
| Restricted for construction | | – | | 29,510 |
| Total | $ | 7,710,250 | $ | 6,424,312 |

**NOTE 3. RESTRICTED NET ASSETS**

Restricted net assets are expendable for the following purposes:

| | | 2009 | | 2008 |
|---|---|---|---|---|
| General care | $ | 154,672 | $ | 154,672 |
| Debt service | | 3,766,536 | | 3,015,870 |
| Total restricted net assets | $ | 3,921,208 | $ | 3,170,542 |

**NOTE 4. CONTINGENCIES**

The estimated third party payor settlements recorded at June 30, 2008 could differ from actual settlements based on the results of cost report audits. Medicaid cost reports for all years and Medicare cost reports for all years up to October 1, 1999 have been audited and settled as of the date of the prior year Independent Auditor's Report. There are no amounts receivable and payable relating to final settlements as of June 30, 2009. All settled cost reports can be re-opened and are, therefore, subject to subsequent adjustment. In the opinion of management, adequate reserves for estimated final settlements have been provided as of June 30, 2009.

**NOTE 5. MILL LEVY TAXES RECEIVABLE**

A New Mexico law adopted in 1980 and amended in 1981 allows counties to provide expanded tax support to qualified Districts. Mill levy taxes are reported as revenue in the period for which they were levied. Due to additional information obtained from Eddy County, the District changed their estimate for uncollectible ad-valorem taxes in 2007. The allowable-uncollectible amount represented taxes protested by Navajo Refinery Company for 2005, 2006, and 2007 and amounts protested by Qwest for 2006 and 2007. In 2009 the taxes under protest were settled in favor of the tax payer and the District did not receive any part of these amounts. Therefore, the allowance was reduced to $4,230, based on an estimate of all amounts outstanding.

The District received cash operating mill levy proceeds of $4,415,559 and $3,622,178 in 2009 and 2008 respectively and passed through to AGH and Dialysis Unit the amounts of $3,671,925 and $3,030,642 in 2009 and 2008, respectively.

## NOTE 5. MILL LEVY TAXES RECEIVABLE (continued)

Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended. The new mill levy was passed in August 2006 and is set to expire in 2009. In August of 2009 the mill levy was voted in favor of renewal for tax years 2010 to 2013. See Note 9 for additional information.

The District recorded General Obligation Bond mill levy revenues of $3,089,834 and $3,386,268 in 2009 and 2008, respectively. This mill levy was passed by the voters in November 2004 and August 2006. Bonds are scheduled to be paid off August 2019.

The total Mill levy receivable was $873,892 and $1,088,090 at June 30, 2009 and 2008 respectively. Mill levy receivable consists of the following at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Mill levy receivable | | |
| Ad-valorem | $ 446,153 | $ 449,114 |
| Oil and gas | 431,969 | 1,027,084 |
| Less allowance for uncollectible amounts | 4,230 | 388,108 |
| Mill levy receivable | $ 873,892 | $ 1,088,090 |

## NOTE 6. ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at June 30, 2009 and 2008 consisted of these amounts:

| **Accounts Receivable and Accrued Interest** | 2009 | 2008 |
|---|---|---|
| Mill levy receivable | $ 873,892 | $ 1,088,090 |
| Rent receivable | 125,000 | 125,000 |
| Accrued interest receivable | 4,658 | 7,297 |
| Total accounts receivable and accrued interest | $ 1,003,550 | $ 1,220,387 |

| **Accounts Payable and Accrued Expenses** | 2009 | 2008 |
|---|---|---|
| Accounts payable to contractors and others | $ 6,305 | $ 172,967 |
| Retainage payable to contractors | – | 21,746 |
| Accrued bond interest payable | 354,891 | 384,617 |
| Total accounts payable and accrued expenses | $ 361,196 | $ 579,330 |

**NOTE 7. CAPITAL ASSETS**

Depreciation expense for the periods ended June 30, 2009 and 2008 was $1,748,456 and $1,695,495 and interest capitalized for the years ended June 30, 2009 and 2008 was $478,031 and $461,831, respectively.

Capital assets, additions, retirements, and balances for the year ended June 30, 2009 are as follows:

| | Balance June 30, 2008 | Additions | Disposals | Balance June 30, 2009 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land and improvements | $ 60,052 | $ - | $ - | $ 60,052 |
| Construction in progress | 449,054 | 399,101 | 848,155 | - |
| | 509,106 | 399,101 | 848,155 | 60,052 |
| Depreciable assets: | | | | |
| Land improvements | 1,229,969 | - | - | 1,229,969 |
| Buildings and improvements | 32,591,319 | 853,713 | - | 33,445,032 |
| Equipment | 7,880,403 | 175,000 | - | 8,055,403 |
| | 41,701,691 | 1,028,713 | - | 42,730,404 |
| Accumulated depreciation | | | | |
| Land improvements | (396,577) | (93,194) | - | (489,771) |
| Buildings and improvements | (5,753,766) | (1,303,105) | - | (7,056,871) |
| Equipment | (5,865,564) | (352,157) | - | (6,217,721) |
| | (12,015,907) | (1,748,456) | - | (13,764,363) |
| Net capital assets | $ 30,194,890 | $ (320,642) | $ 848,155 | $ 29,026,093 |

**NOTE 7. CAPITAL ASSETS** (continued)

Capital assets, additions, retirements, and balances for the year ended June 30, 2008 are as follows:

| | Balance June 30, 2007 | Additions | Disposals | Balance June 30, 2008 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land and improvements | $ 60,052 | $ - | $ - | $ 60,052 |
| Construction in progress | 5,813,288 | 1,425,371 | 6,789,605 | 449,054 |
| | 5,873,340 | 1,425,371 | 6,789,605 | 509,106 |
| Depreciable assets: | | | | |
| Land improvements | 1,117,060 | 112,909 | - | 1,229,969 |
| Buildings and improvements | 25,934,619 | 6,656,700 | - | 32,591,319 |
| Equipment | 7,642,079 | 238,324 | - | 7,880,403 |
| | 34,693,758 | 7,007,933 | - | 41,701,691 |
| Accumulated depreciation | | | | |
| Land improvements | (306,206) | (90,371) | - | (396,577) |
| Buildings and improvements | (4,540,570) | (1,213,196) | - | (5,753,766) |
| Equipment | (5,473,636) | (391,928) | - | (5,865,564) |
| | (10,320,412) | (1,695,495) | - | (12,015,907) |
| Net capital assets | $ 30,246,686 | $ 6,737,809 | $ 6,789,605 | $ 30,194,890 |

**NOTE 8. LONG-TERM DEBT**

A schedule of changes in the District's General Obligation Bonds for 2009 and 2008 follows:

| | Balance June 30, 2008 | Additions | Reductions/ Adjustments | Balance June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2005 GO Bond | $ 17,255,000 | $ – | $ 1,150,000 | $ 16,105,000 | $ 1,195,000 |
| 2006 GO Bond | 6,850,000 | – | 475,000 | 6,375,000 | 475,000 |
| 2006 Premium | 2,113 | – | 33 | 2,146 | – |
| Total Long-Term Debt | $ 24,107,113 | $ – | $ 1,624,967 | $ 22,482,146 | $ 1,670,000 |

| | Balance June 30, 2007 | Additions | Reduction | Balance June 30, 2008 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| 2005 GO Bond | $ 18,360,000 | $ – | $ 1,105,000 | $ 17,255,000 | $ 1,150,000 |
| 2006 GO Bond | 8,000,000 | – | 1,150,000 | 6,850,000 | 475,000 |
| 2006 Premium | 2,663 | – | 550 | 2,113 | – |
| Total Long-Term Debt | $ 26,362,663 | $ – | $ 2,255,550 | $ 24,107,113 | $ 1,625,000 |

**NOTE 8. LONG-TERM DEBT** (continued)

Bonds outstanding at June 30, 2009, consist of the following issues:

General Obligation Bonds Series : 2005
Original Issue : $20,000,000
Principal : August 1
Interest : February 1 and August 1
Rates : 3.25% - 4.5%
Purpose : To renovate and make additions to the Hospital

Scheduled principal and interest repayments on long-term debt obligations are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 1,195,000 | $ 576,713 | $ 1,771,713 |
| 2011 | 1,240,000 | 528,125 | 1,768,125 |
| 2012 | 1,290,000 | 483,850 | 1,773,850 |
| 2013 | 1,345,000 | 439,419 | 1,784,419 |
| 2014 | 1,395,000 | 393,150 | 1,788,150 |
| 2015-2019 | 9,640,000 | 1,179,055 | 10,819,055 |
| **Total** | $ 16,105,000 | $ 3,600,312 | $ 19,705,312 |

General Obligation Bonds Series : 2006
Original Issue : $8,000,000
Principal : August 1
Interest : February 1 and August 1
Rates : 3.75% - 4.5%
Purpose: To erect, remodel, make additions to and furnish and provide equipment to the Hospital or any combination of these purposes.

Scheduled principal and interest repayments on long-term debt obligations are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 475,000 | $ 238,341 | $ 713,341 |
| 2011 | 500,000 | 218,231 | 718,231 |
| 2012 | 500,000 | 197,606 | 697,606 |
| 2013 | 525,000 | 176,466 | 701,466 |
| 2014 | 550,000 | 154,637 | 704,637 |
| 2015-2019 | 3,825,000 | 444,619 | 4,269,619 |
| **Total** | $ 6,375,000 | $ 1,429,900 | $ 7,804,900 |

The District has established an Interest and Sinking fund for the payment of principal and interest on the Bonds. The Bond fund will be used at all times while the Bonds are outstanding. This fund is used primarily to achieve a proper matching of revenues and debt service requirements on the Bonds during each year.

**NOTE 9. SUBSEQUENT EVENTS**

The Facility and Equipment Lease Agreement between Artesia Special Hospital District and Community Hospital Corporation is scheduled to expire on October 31, 2009. A Fair Market Value Analysis was performed on Artesia General Hospital and a report was issued on August 25, 2009. This report indicated that the fair value of the lease was $378,000. Therefore the lease was renewed with changes being that the tenant (Artesia General Hospital) agrees to pay $378,000 per year in monthly installments of $31,500 beginning November 1, 2009.

In August of 2009 the mill levy was voted in favor of renewal for tax years 2010 to 2013.

**NOTE 10. RELATED PARTY**

A member of the Board who is also the owner of an insurance company that provides insurance for the District. The total amount of services provided for fiscal year 2009 is $10,506.

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**SUPPLEMENTARY INFORMATION**

**Artesia Special Hospital District**

**Schedule I**

Schedule of Collateral Pledged by Depository
For Public Funds
June 30, 2009

| Name of Depository and Description of Pledged Collateral | | Fair Market/Par Value June 30, 2009 | Name and Location of Safekeeper |
|---|---|---|---|
| **First American** | | | |
| FHLB, Texico NM Municipal School District | | | Federal Home Loan Bank |
| Due 08/01/2021, CUSIP#883005CHI | $ | 85,000 | Dallas, Texas |
| FHLMC, MBS 20 Yr C90863 | | | Federal Home Loan Bank |
| Due 08/01/2021 CUSIP#31335H5Y5 | | 466,177 | Dallas, Texas |
| FHLB, MBS FNMA | | | Federal Home Loan Bank |
| Due 12/01/2033 CUSIP#31404HTV1 | | 97,449 | Dallas, Texas |
| FHLB, Letter of Credit | | | Federal Home Loan Bank |
| Due 01/15/2010 | | 5,500,000 | Dallas, Texas |
| | $ | 6,148,626 | |
| **Western Bank** | | | |
| FHLMC Pool #C90015 | | | Federal Home Loan Bank |
| Due 5/1/2013, CUSIP #31335HAQ6/0004100005( | $ | 30,222 | Dallas, Texas |
| FHLMC Pool #C90015 | | | Federal Home Loan Bank |
| Due 5/1/2013, CUSIP #31335HAQ6/00041000056 | | 10,137 | Dallas, Texas |
| GNMA II Pool #1753 | | | Federal Home Loan Bank |
| Due 6/20/2024, CUSIP#36202B5N1/0012130038 | | 75,133 | Dallas, Texas |
| GNMA Series 2003-6 Class | | | Federal Home Loan Bank |
| Due 01/16/2032, CUSIP#38373YA38 | | 947,441 | Dallas, Texas |
| | $ | 1,062,933 | |

See Independent Auditor's Report

**Artesia Special Hospital District**
Schedule of Deposit and Investment Accounts
June 30, 2009

**Schedule II**

| Deposit Type | First National Bank | Western Bank | Total |
|---|---|---|---|
| Operational - NOW checking | $ 1,018,249 | $ - | $ 1,018,249 |
| General needs - NOW checking | 5,014 | - | 5,014 |
| Bond sinking fund - MMF checking | 3,766,535 | - | 3,766,535 |
| Renovation - NOW checking | (6) | - | (6) |
| Dialysis - NOW checking | 1,674,929 | - | 1,674,929 |
| Construction escrow - MMF checking | 44 | - | 44 |
| Certificate of deposit | - | 1,245,474 | 1,245,474 |
| Total on deposit | 6,464,765 | 1,245,474 | 7,710,239 |
| Reconciling items: | | | |
| Deposits in transit | 59 | - | 59 |
| Outstanding checks | (48) | - | (48) |
| Total, June 30, 2009 | $ 6,464,776 | $ 1,245,474 | $ 7,710,250 |

| | |
|---|---|
| Reconciliation to June 30, 2009 | |
| Statement of Net Assets | |
| Unrestricted cash and cash equivalents | $ 2,263,771 |
| Cash restricted by donor for cardiac and general care | 5,014 |
| Cash restricted by donor for dialysis unit | 1,674,929 |
| Cash restricted by bond indenture for debt service | 3,766,536 |
| | $ 7,710,250 |

See Independent Auditor's Report

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**Artesia Special Hospital District**
Schedule of Revenues and Expenses with Budget
Comparison - (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2009

**Schedule III**

| | Original Budget | Final Appropriated Budget | Non-GAAP Budgetary Actual | Variance with Final Budget |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Mill levy taxes | $ 3,772,662 | $ 4,415,559 | $ 4,415,559 | $ - |
| Less amounts passed through to: AGH | (3,664,716) | (3,679,632) | (3,671,925) | 7,707 |
| GO Bond mill levy | 2,720,108 | 3,229,148 | 3,229,148 | - |
| Lease income | 250,004 | 250,004 | 250,004 | - |
| Investment income | 43,600 | 89,575 | 81,867 | (7,708) |
| Capital grants | 310,000 | 308,650 | 308,650 | - |
| Other | 527 | 2,615 | 2,472 | (143) |
| **Total revenues** | 3,432,185 | 4,615,919 | 4,615,775 | (144) |
| **Expenses** | | | | |
| Current: | | | | |
| Miscellaneous | 1,800 | 246 | 246 | - |
| Professional fees | 43,500 | 42,717 | 42,717 | - |
| Insurance | 11,350 | 10,506 | 10,506 | - |
| Rentals and leases | - | - | 2,778 | (2,778) |
| Capital projects | 1,175,000 | 764,102 | 772,735 | (8,633) |
| Debt service: | | | | |
| Principal payments | 1,625,000 | 1,625,000 | 1,625,000 | - |
| Interest | 887,409 | 887,409 | 875,855 | 11,554 |
| **Total expenses** | 3,744,059 | 3,329,980 | 3,329,837 | 143 |
| **(Deficiency) excess of revenues over expenses** | (311,874) | 1,285,939 | 1,285,938 | (1) |
| **Other financing sources and (uses):** | | | | |
| GO Bond proceeds | - | - | - | - |
| **Total other financing sources and (uses):** | - | - | - | - |
| **Change in net assets** | (311,874) | 1,285,939 | 1,285,938 | $ (1) |
| **Cash and investments required to balance budget** | 311,874 | (1,285,939) | | |
| | $ - | $ - | | |

| **Reconciliation to Statement of Revenues and Expenses:** | |
|---|---|
| Decrease for capital asset expenses | 772,735 |
| Principal payments | 1,625,000 |
| Depreciation and amortization | (1,753,902) |
| Changes in payables | 32,652 |
| Changes in receivables and due to AGH | (885,620) |
| **Increase in net assets** | $ 1,076,803 |

See Independent Auditor's Report

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## COMPLIANCE SECTION

## 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*

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
To The Board of Trustees
Artesia Special Hospital District
Artesia, New Mexico

We have audited the accompanying financial statements of the business-type activities of Artesia Special Hospital District (the District), a political subdivision of the State of New Mexico as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited Schedule III – Schedule of Revenues and Expenses with Budget Comparison presented as supplementary information for the year ended June 30, 2009, and have issued our report thereon dated October 13, 2009. 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.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 District'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.*

The results of our tests disclosed no instances of noncompliance or other matters that are required to be included in this report under *Government Auditing Standards.* However, we noted certain matters that are required to be communicated to management under *Government Auditing Standards* paragraphs 5.14 and 5.16, and required to be included in this report by Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 2007-1, and 2007-2.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustee's management, the Office of the State Auditor, and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Certified Public Accountants

Albuquerque, New Mexico
October 13, 2009

## FINDINGS – FINANCIAL STATEMENT AUDIT

### 2007-1 Preparation of Financial Statements

***Condition***

The financial statements and related note disclosures are not being prepared by the management of the District.

***Criteria***

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112 *Communicating Internal Control Related Matters Identified in an Audit* (SAS 112), a system of internal control over financial reporting does not stop at maintaining the general ledger, rather the system should also include controls over financial statement preparation, including the preparation of the footnote disclosures.

***Effect***

A control deficiency under SAS 112 exists because the District does not have in place, formal controls over capturing the data necessary for the preparation of its annual financial statements and related footnote disclosures.

***Cause***

The District does not employ personnel. Bookkeeping is done by a contracted CPA, with oversight from the board, and controls are in place for the maintenance of the general ledger, but formal controls over capturing the data required for the final preparation of the financial statements and related note disclosures have not been developed and implemented.

***Recommendation***

We recommend that the District design and implement a formal system of internal control that will allow the District to prevent and detect material errors that could occur in its financial statements and related note disclosures.

***Response***

The District prepares a Balance Sheet, Income Statement and Statement of Actual and Projected Cash Flows each month. Due to the District's limited resources (i.e. the District does not employ any personnel), the District does not prepare the final annual audited financial statements and related footnote disclosures. The District Board of Trustees is comprised of individuals who have significant business and governmental agency knowledge. In addition, the Chairman of the District is a CPA. The Board maintains oversight over the financial statements and related footnotes of the District as prepared by the District's Independent Public Accountant and is confident that sufficient internal controls exist that will allow the District Board to prevent and detect material errors that could occur in its financial statements and related footnote disclosures.

**2007-2 <u>Segregation of Duties</u>**

***Condition***

The District does not have any employees, and accordingly, proper segregation of duties is not possible.

***Criteria***

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur. (AU 325)

***Effect***

Absent an adequate segregation of duties, an entity's financial statements are exposed to additional risks of misstatement due to error or fraud.

***Cause***

District operations are primarily directed by the Chairman of the Board of Trustees assisted by a CPA engaged to maintain the bookkeeping, and the District has no employees, thus an adequate segregation of duties is not possible.

***Recommendation***

Proper segregation is not always possible in a small organization. We recommend that the Board continue to provide extensive oversight, and continue to implement limited segregation to the extent possible to reduce the risk of errors or fraud.

***Response***

Due to the District's limited resources (i.e. the District does not employ any personnel), there are some duties that would be segregated in a larger organization. However, the Board does feel that there is good segregation of duties in the most vital accounting areas. The Board requires two signatures on all disbursements to outside entities. Bank statements for all District accounts are reconciled by the District's outside contracted CPA firm that is not authorized to sign checks. Bank Statements are mailed directly to the outside CPA firm and not to the District Board. The District receives a listing of all deposits and disbursements, which is prepared by the District's contracted CPA firm and not by those individuals who have authority to make disbursements. The District Board of Trustees is comprised of individuals who have significant business and governmental agency knowledge. In addition, the Chairman of the District is a CPA. The Board will continue to provide extensive oversight, and will implement additional segregation of duties to the extent possible to reduce the risk of errors or fraud.

## PRIOR YEAR FINDINGS

2007-1 Preparation of Financial Statements, repeated
2007-2 Lack of Segregation of Duties, repeated

## AUDITOR PREPARED FINANCIAL STATEMENTS

Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District did not have the time to prepare them. Therefore, Accounting & Consulting Group, LLP prepared the financial statements and footnotes for inclusion in the annual audit report.

## EXIT CONFERENCE

The contents of this report were discussed on October 13, 2009. The following individuals were in attendance.

| Artesia Special Hospital District | Auditors |
|---|---|
| **Dennis Maupin, Chairman** | **Ray Roberts, Partner** |
| **S. Gary Sims Secretary/Treasurer** | **Sarah Salgado, Senior** |