

**ARTESIA SPECIAL HOSPITAL DISTRICT**  
**EDDY COUNTY, NEW MEXICO**  
**FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2010 AND 2009**

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## **INTRODUCTORY SECTION**

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**Artesia Special Hospital District**  
Official Roster  
June 30, 2010

Board of Trustees

<u>Name</u>	<u>Title</u>
Dennis Maupin	Chairman
Mike Deans	Vice-Chairman
S. Gary Sims	Secretary/Treasurer
Glenn Collier	Member
Connie Conner	Member

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**Artesia Special Hospital District**

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June 30, 2010

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**FINANCIAL SECTION**

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**Accounting & Consulting Group, LLP**  
Certified Public Accountants

## 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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, 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 comparison for the enterprise fund for the year ended June 30, 2010, 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 6, 2010, 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 13 through 17 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 6, 2010

**Artesia Special Hospital District**  
Management's Discussion & Analysis  
June 30, 2010

**- 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, 2010 and 2009. Please read it in conjunction with the District's financial statements.

**Financial Highlights**

- The District's change in unrestricted net assets between 2010 and 2009 was \$130,692 or a 5.2% increase mainly due to operating revenues exceeding the operating expenses by \$2,276,850, excluding depreciation. 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 \$1,670,000 in 2010. 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 \$1,554,747 in 2009 and an operating gain of \$362,263 in 2010 mainly due to a change in the operating agreement with the Hospital where the District no longer provides Mill Levy funding to the Dialysis unit. 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 an operating profit of \$2,276,850 in 2010. 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 completion of a renovation project in 2009. 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 decreased in 2009-2010 resulting in an Operating mill levy tax revenue decrease of \$(347,723) or 23.2%.
- The 2010 General Obligation Bond mill levy was \$2,320,978 in 2010 and \$3,089,834 in 2009.
- Construction in progress decreased \$449,054 for renovation and new construction for the Hospital in the prior year.
- Accounts payable decreased \$3,862 due to owing less outstanding legal fees.

**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

**Artesia Special Hospital District**  
Management's Discussion & Analysis  
June 30, 2010

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**

Other non-current assets	3,807,950	5,535,517	4,024,548
<b>Total assets</b>	<u>\$ 36,540,570</u>	<u>\$ 37,828,931</u>	<u>\$ 37,934,074</u>
<b>Liabilities:</b>			
Long term obligations outstanding	20,811,906	22,482,146	24,107,113
Other current and non-current liabilities	<u>788,120</u>	<u>2,541,806</u>	<u>2,098,785</u>
<b>Total Liabilities</b>	<u>21,600,026</u>	<u>25,023,952</u>	<u>26,205,898</u>
<b>Net assets:</b>			
Invested in capital assets net of related debt	8,589,706	6,537,642	5,922,574
Restricted for general care	5,032	5,014	24,866
Restricted for debt service	3,719,327	3,766,536	3,015,870
Unrestricted	<u>2,626,479</u>	<u>2,495,787</u>	<u>2,764,866</u>
<b>Total net assets</b>	<u>14,940,544</u>	<u>12,804,979</u>	<u>11,728,176</u>
<b>Total liabilities and net assets</b>	<u>\$ 36,540,570</u>	<u>\$ 37,828,931</u>	<u>\$ 37,934,074</u>

**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 \$2,135,565 or 16.7% 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.

**Artesia Special Hospital District**  
Management's Discussion & Analysis  
June 30, 2010

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

In the year of 2010, the District's net assets increased \$2,135,565 as you can see in Table 2.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>			
Mill levy taxes	\$ 3,864,673	\$ 4,340,675	\$ 3,854,531
Less amounts passed through to : AGH	(3,437,889)	(3,617,229)	(3,170,671)
AGH reserve	(426,784)	(723,446)	(657,241)
Lease income	293,668	250,004	250,004
Other	1,883	10,067	845
<b>Total operating revenues</b>	<u>295,551</u>	<u>260,071</u>	<u>277,468</u>
<b>Operating expenses</b>			
Miscellaneous	66,402	14,743	45,668
Professional fees	49,700	46,173	67,061
Depreciation and amortization	1,914,587	1,753,902	1,700,942
<b>Total operating expenses</b>	<u>2,030,689</u>	<u>1,814,818</u>	<u>1,813,671</u>
<b>Operating income (loss)</b>	<u>(1,735,138)</u>	<u>(1,554,747)</u>	<u>(1,536,203)</u>
<b>Nonoperating revenues and expenses</b>			
Mill Levy funds used for capital expenditures	2,097,401	-	-
G.O. Bond mill levy	2,320,978	3,089,834	3,386,268
Investment income	76,568	79,195	116,195
Interest expense	(784,244)	(846,129)	(816,189)
<b>Total nonoperating revenues (expenses)</b>	<u>3,710,703</u>	<u>2,322,900</u>	<u>2,686,274</u>
<b>Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments</b>	1,975,565	768,153	1,150,071
Restricted contributions	160,000	-	1,020
Capital grants	-	308,650	995,908
<b>Increase in net assets</b>	2,135,565	1,076,803	2,146,999
<b>Net assets beginning of year</b>	<u>12,804,979</u>	<u>11,728,176</u>	<u>9,581,177</u>
<b>Net assets end of year</b>	<u>\$ 14,940,544</u>	<u>\$ 12,804,979</u>	<u>\$ 11,728,176</u>

**Artesia Special Hospital District**  
Management's Discussion & Analysis  
June 30, 2010

**Operating Income/(Loss)**

Operating income/(loss) consists of three main items. One, the mill levy funds (\$3,864,673 in 2010) are collected and paid directly to 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 November of 2009 and expires in October of 2014. 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 in 2009.

**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 2010, the District had \$29,404,055 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2010, the District purchased equipment costing \$1,869,729 and completed building renovations costing \$417,373 for total buildings and improvement additions of \$2,287,102.

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 \$19,071,906, net of current maturities of \$1,740,000, 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.



**Artesia Special Hospital District**  
Management's Discussion & Analysis  
June 30, 2010

**Subsequent Events**

There were no subsequent events after the fiscal year ended June 30, 2010 and before the completion of the financial statements noted.

**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.

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**BASIC  
FINANCIAL STATEMENTS**

**Artesia Special Hospital District**  
**Statements of Net Assets**  
**June 30, 2010 and 2009**

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 1,321,541	\$ 2,263,771
Investments	1,258,382	-
Mill levy receivable, net of uncollectible amounts (Note 5)	743,877	873,892
Rent receivable	-	125,000
Accrued interest receivable	76	4,658
Prepaid expenses	4,689	-
<b>Total current assets</b>	<u>3,328,565</u>	<u>3,267,321</u>
<b>Noncurrent cash and investments</b>		
Cash restricted by donor for cardiac and general care	5,032	5,014
Cash restricted by donor for AGH reserve	-	1,674,929
Cash restricted by bond indenture for debt service	3,719,327	3,766,536
<b>Total noncurrent assets</b>	<u>3,724,359</u>	<u>5,446,479</u>
<b>Capital Assets</b>		
Land	60,052	60,052
Depreciable capital assets, net of accumulated depreciation (Note 7)	29,344,003	28,966,041
<b>Net capital assets</b>	<u>29,404,055</u>	<u>29,026,093</u>
<b>Other Assets</b>		
Bond issuance costs net of accumulated amortization \$23,357 in 2010 and \$19,910 in 2009	83,591	89,038
<b>Total assets</b>	<u>\$ 36,540,570</u>	<u>\$ 37,828,931</u>

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

**Artesia Special Hospital District**  
 Statements of Net Assets  
 June 30, 2010 and 2009

**Liabilities and Net Assets**

	<b>2010</b>	<b>2009</b>
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 1,740,000	\$ 1,670,000
Due to AGH	461,357	421,401
Due to AGH reserve	-	1,759,209
Accounts payable (Note 6)	2,443	6,305
Accrued bond interest payable (Note 6)	324,320	354,891
<b>Total current liabilities</b>	<b>2,528,120</b>	<b>4,211,806</b>
<b>Long Term Liabilities</b>		
Long-term debt, net of current maturities (Note 8)	19,071,906	20,812,146
<b>Total liabilities</b>	<b>21,600,026</b>	<b>25,023,952</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	8,589,706	6,537,642
Restricted, expendable for:		
General care	5,032	5,014
Debt service	3,719,327	3,766,536
Unrestricted	2,626,479	2,495,787
<b>Total net assets</b>	<b>14,940,544</b>	<b>12,804,979</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,540,570</b>	<b>\$ 37,828,931</b>

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

**Artesia Special Hospital District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ending June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>		
Mill levy taxes		
Ad-valorem taxes	\$ 1,145,596	\$ 1,493,319
Oil and gas taxes	2,719,077	2,847,356
Less amounts passed through to AGH	(3,437,889)	(3,617,229)
Less amounts passed through to AGH Reserve	(426,784)	(723,446)
Lease income	293,668	250,004
Other	1,883	10,067
	<b>295,551</b>	<b>260,071</b>
<b>Operating Expenses</b>		
Miscellaneous	57,209	96
Advertising	3,652	1,363
Insurance	5,541	10,506
Professional fees	49,700	46,173
Rentals and Leases	-	2,778
Depreciation and amortization	1,914,587	1,753,902
	<b>2,030,689</b>	<b>1,814,818</b>
<b>Operating income (loss)</b>	<b>(1,735,138)</b>	<b>(1,554,747)</b>
<b>Nonoperating Revenues (Expenses):</b>		
Mill Levy funds used for capital expenditures	2,097,401	-
GO Bond mill levy	2,320,978	3,089,834
Investment income	76,568	79,195
Interest expense	(784,244)	(846,129)
	<b>3,710,703</b>	<b>2,322,900</b>
Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments	1,975,565	768,153
Contributions restricted to capital improvements	160,000	-
Capital grants	-	308,650
	<b>2,135,565</b>	<b>1,076,803</b>
<b>Increase in net assets</b>	<b>2,135,565</b>	<b>1,076,803</b>
<b>Net Assets - beginning of the year</b>	<b>12,804,979</b>	<b>11,728,176</b>
<b>Net Assets - end of the year</b>	<b>\$ 14,940,544</b>	<b>\$ 12,804,979</b>

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

**Artesia Special Hospital District**  
**Statements of Cash Flows**  
For the Years Ending June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 1,883	\$ 2,472
Receipts from leases	418,668	250,004
Payments to vendors	<u>(124,653)</u>	<u>(56,248)</u>
<b>Net cash provided by operating activities</b>	<u>295,898</u>	<u>196,228</u>
<b>Cash flows from non-capital financing activities:</b>		
Mill levy taxes	3,908,997	4,415,559
Pass through of mill levy taxes to AGH	<u>(3,486,525)</u>	<u>(3,671,924)</u>
<b>Net cash provided by non-capital financing activities</b>	<u>422,472</u>	<u>743,635</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grant revenue	-	308,650
Gift revenue	160,000	-
Bond mill levy	2,406,669	3,229,148
Purchase of capital assets	(2,287,102)	(772,735)
Interest payment on long-term debt	(815,055)	(875,855)
Principal payments on long-term debt	<u>(1,670,000)</u>	<u>(1,625,000)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(2,205,488)</u>	<u>264,208</u>
<b>Cash flows from investing activities:</b>		
Investment income	81,150	81,867
Purchase of investments	<u>(1,258,382)</u>	<u>-</u>
<b>Net cash provided (used) by investing activities</b>	<u>(1,177,232)</u>	<u>81,867</u>
<b>Net increase (decrease) in cash and temporary investments</b>	(2,664,350)	1,285,938
<b>Cash and temporary investments - beginning of year</b>	<u>7,710,250</u>	<u>6,424,312</u>
<b>Cash and temporary investments - end of year</b>	<u>\$ 5,045,900</u>	<u>\$ 7,710,250</u>
<b>Unrestricted cash and cash equivalents</b>	\$ 1,321,541	\$ 2,263,771
<b>Restricted cash and cash equivalents</b>		
Restricted by donor for cardiac and general care	5,032	5,014
Restricted by donor for AGH reserve	-	1,674,929
Restricted for debt service	<u>3,719,327</u>	<u>3,766,536</u>
<b>Total cash and cash equivalents</b>	<u>\$ 5,045,900</u>	<u>\$ 7,710,250</u>

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

**Artesia Special Hospital District**  
**Statements of Cash Flows**  
For the Years Ending June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (1,735,138)	\$ (1,554,747)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation and amortization	1,914,587	1,753,902
Increase (decrease) in:		
Accounts payable	(3,862)	4,668
Increase (decrease) in:		
Estimated third-party payor settlements	-	(7,595)
Decrease (increase) in:		
Accounts receivable	125,000	-
Prepaid Insurance	(4,689)	-
	<u>295,898</u>	<u>196,228</u>
<b>Net cash provided by operating activities</b>	<b>\$ <u>295,898</u></b>	<b>\$ <u>196,228</u></b>

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



**Artesia Special Hospital District**

Notes to the Financial Statements

June 30, 2010 and 2009

**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 unit the total amount of the mill levy tax that the District receives each year. The agreement with AGH was renewed on November 1, 2009 for a period of five years and will be automatically renewed for one successive five-year period.

**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 is located at this site as well as in two suites in a medical office building and an offsite storage facility.

Under the lease agreement, covering the period from November 1, 2009 to October 31, 2014, the tenant will pay rent to the landlord in the amount of \$378,000 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.

**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.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

**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 5 for additional information regarding renewal). The District recorded \$3,864,673 in 2010 and \$4,340,675 in 2009 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 \$2,320,978 in 2010 and \$3,089,834 in 2009 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.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

**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 10<sup>th</sup> and April 10<sup>th</sup>. 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 \$3,873,999 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, 2010 and 2009, the District was not aware of any non-compliance with these requirements.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

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

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. 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, 2010 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.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

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

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 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, 2010 and 2009, \$5,867,804 and \$7,210,239 of the District's bank balances were exposed to custodial credit risk as follows:

	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
Year ended June 30, 2010			
Total amount of deposits	\$ 5,109,422	\$ 1,258,382	\$ 6,367,804
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	<u>4,859,422</u>	<u>1,008,382</u>	<u>5,867,804</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	<u>4,859,422</u>	<u>683,235</u>	<u>5,542,657</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 325,147</u>	<u>\$ 325,147</u>
Collateral requirement (50% of uninsured public funds)	\$ 2,429,711	\$ 504,191	\$ 2,933,902
Pledged securities	6,015,528	683,235	6,698,763
Over (under) collateralization	<u>\$ 3,585,817</u>	<u>\$ 179,044</u>	<u>\$ 3,764,861</u>
	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
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	<u>6,214,765</u>	<u>995,474</u>	<u>7,210,239</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	<u>6,148,625</u>	<u>995,474</u>	<u>7,144,099</u>
Uninsured and uncollateralized	<u>\$ 66,140</u>	<u>\$ -</u>	<u>\$ 66,140</u>
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	<u>\$ 3,041,242</u>	<u>\$ 565,196</u>	<u>\$ 3,606,438</u>

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

**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:

	<b>2010</b>	<b>2009</b>
Deposits	\$ 6,367,804	\$ 7,710,239
Reconciling items	(63,522)	11
Carrying amount	\$ 6,304,282	\$ 7,710,250
Included in the following Statement of Net Assets captions:		
Cash and cash equivalents	\$ 1,321,541	\$ 2,263,771
Investments	1,258,382	-
Non-current cash and investments		
Restricted by donor for cardiac and general care	5,032	5,014
Restricted by donor for AGH reserve	-	1,674,929
Restricted for debt service	3,719,327	3,766,536
Total	\$ 6,304,282	\$ 7,710,250

**NOTE 3. RESTRICTED NET ASSETS**

Restricted net assets are expendable for the following purposes:

	<b>2010</b>	<b>2009</b>
General care	\$ 5,032	\$ 5,014
Debt Service	3,719,327	3,766,536
Total restricted net assets	\$ 3,724,359	\$ 3,771,550

**NOTE 4. CONTINGENCIES**

The estimated third party payor settlements recorded at June 30, 2009 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, 2010. 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, 2010.

**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 2010 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 \$386, based on an estimate of all amounts outstanding.

The District received cash operating mill levy proceeds of \$3,908,997 and \$4,415,559 in 2010 and 2009 respectively and passed through to AGH and Dialysis Unit the amounts of \$3,486,525 and \$3,671,924 in 2010 and 2009, respectively.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

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

The District recorded General Obligation Bond mill levy revenues of \$2,320,978 and \$3,089,834 in 2010 and 2009, 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 \$743,877 and \$873,892 at June 30, 2010 and 2009 respectively. Mill levy receivable consists of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Mill levy receivable		
Ad-valorem	\$ 38,638	\$ 446,153
Oil and gas	705,625	431,969
Less: allowance for uncollectible amounts	386	4,230
Mill levy receivable	<u>\$ 743,877</u>	<u>\$ 873,892</u>

**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, 2010 and 2009 consisted of these amounts:

<b>Accounts Receivable and Accrued Interest</b>	<u>2010</u>	<u>2009</u>
Mill levy receivable, net of uncollectible amounts	\$ 743,877	\$ 873,892
Rent receivable	-	125,000
Accrued interest receivable	76	4,658
Total accounts receivable and accrued interest	<u>\$ 743,953</u>	<u>\$ 1,003,550</u>
<b>Accounts Payable and Accrued Expenses</b>	<u>2010</u>	<u>2009</u>
Accounts payable to contractors and others	\$ 2,443	\$ 6,305
Accrued bond interest payable	324,320	354,891
Total accounts payable and accrued expenses	<u>\$ 326,763</u>	<u>\$ 361,196</u>

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

**NOTE 7. CAPITAL ASSETS**

Depreciation expense for the periods ended June 30, 2010 and 2009 was \$1,909,139 and \$1,748,456 and interest capitalized for the years ended June 30, 2010 and 2009 was \$0 and \$478,031, respectively.

Capital assets, additions, retirements, and balances for the year ended June 30, 2010 are as follows:

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2010</b>
Non-depreciable assets:				
Land and improvements	\$ 60,052	\$ -	\$ -	\$ 60,052
Construction in progress	-	-	-	-
	<u>60,052</u>	<u>-</u>	<u>-</u>	<u>60,052</u>
Depreciable assets:				
Land improvements	1,229,969	-	-	1,229,969
Buildings and improvements	33,445,032	417,373	-	33,862,405
Equipment	8,055,403	1,869,729	-	9,925,132
	<u>42,730,404</u>	<u>2,287,102</u>	<u>-</u>	<u>45,017,506</u>
Accumulated depreciation				
Land improvements	(489,771)	(93,194)	-	(582,965)
Buildings and improvements	(7,056,871)	(1,353,811)	-	(8,410,682)
Equipment	(6,217,721)	(462,135)	-	(6,679,856)
	<u>(13,764,363)</u>	<u>(1,909,140)</u>	<u>-</u>	<u>(15,673,503)</u>
Net capital assets	<u>\$ 29,026,093</u>	<u>\$ 377,962</u>	<u>\$ -</u>	<u>\$ 29,404,055</u>



**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

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

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

	<b>Balance June 30, 2008</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2009</b>
Non-depreciable assets:				
Land and improvements	\$ 60,052	\$ -	\$ -	\$ 60,052
Construction in progress	449,054	399,101	848,155	-
	<u>509,106</u>	<u>399,101</u>	<u>848,155</u>	<u>60,052</u>
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
	<u>41,701,691</u>	<u>1,028,713</u>	<u>-</u>	<u>42,730,404</u>
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)
	<u>(12,015,907)</u>	<u>(1,748,456)</u>	<u>-</u>	<u>(13,764,363)</u>
Net capital assets	<u>\$ 30,194,890</u>	<u>\$ (320,642)</u>	<u>\$ 848,155</u>	<u>\$ 29,026,093</u>

**NOTE 8. LONG-TERM DEBT**

A schedule of changes in the District's General Obligation Bonds for 2010 and 2009 follows:

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Reductions/ Adjustments</b>	<b>Balance June 30, 2010</b>	<b>Amounts Due Within One Year</b>
2005 GO Bond	\$ 16,105,000	\$ -	\$ 1,195,000	\$ 14,910,000	\$ 1,240,000
2006 GO Bond	6,375,000	-	475,000	5,900,000	500,000
2006 Premium	2,146	-	240	1,906	-
Total Long-Term Debt	<u>22,482,146</u>	<u>-</u>	<u>1,670,240</u>	<u>20,811,906</u>	<u>1,740,000</u>

	<b>Balance June 30, 2008</b>	<b>Additions</b>	<b>Reductions/ Adjustments</b>	<b>Balance June 30, 2009</b>	<b>Amounts Due Within One Year</b>
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	<u>24,107,113</u>	<u>-</u>	<u>1,625,033</u>	<u>22,482,146</u>	<u>1,670,000</u>

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

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

Bonds outstanding at June 30, 2010, 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 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:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	1,455,000	343,275	1,798,275
2016-2019	8,185,000	835,781	9,020,781
<b>Total</b>	<b>\$ 14,910,000</b>	<b>\$ 3,023,600</b>	<b>\$ 17,933,600</b>

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 renovate and make additions to the Hospital.

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

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	575,000	132,137	707,137
2016-2019	3,250,000	312,619	3,562,619
<b>Total</b>	<b>\$ 5,900,000</b>	<b>\$ 1,191,696</b>	<b>\$ 7,091,696</b>

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.

**Artesia Special Hospital District**  
Notes to the Financial Statements  
June 30, 2010 and 2009

**NOTE 9. RELATED PARTY**

A member of the Board is also the owner of an insurance agency that provides insurance for the District. The total amount of services provided for fiscal year 2010 is \$10,230.

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**SUPPLEMENTARY INFORMATION**

**Artesia Special Hospital District**  
Schedule of Collateral Pledged by Depository  
For Public Funds  
June 30, 2010

**Schedule I**

<u>Name of Depository and Description of Pledged Collateral</u>	<u>Fair Market/Par Value June 30, 2010</u>	<u>Name and Location of Safekeeper</u>
<b>First American</b>		
Luna Cnty NM - AGM INSD Due 08/01/2021, CUSIP#883005CHI	\$ 426,653	Federal Home Loan Bank Dallas, Texas
Texico NM Mun Sch Dist Due 08/01/2021 CUSIP#31335H5Y5	88,875	Federal Home Loan Bank Dallas, Texas
FHLB, Letter of Credit Due 01/15/2011 CUSIP#883005CH1	5,500,000	First American Bank Dallas, Texas
	<u>\$ 6,015,528</u>	
<b>Western Bank</b>		
FHLMC Pool #C90015 Due 5/1/2013, CUSIP#31335HAQ6/00041000056	\$ 15,267	Federal Home Loan Bank Dallas, Texas
FHLMC Pool #C90015 Due 5/1/2013, CUSIP#31335HAQ6/00041000056	5,121	Federal Home Loan Bank Dallas, Texas
GNMA II Pool #1753 Due 6/20/2024, CUSIP#36202B5N1/0012130038	59,982	Federal Home Loan Bank Dallas, Texas
FHLB, Letter of Credit Due 08/25/2011, CUSIP#38373YA38	602,865	Federal Home Loan Bank Dallas, Texas
	<u>\$ 683,235</u>	

See Independent Auditor's Report.

**Artesia Special Hospital District**  
Schedule of Deposit and Investment Accounts  
June 30, 2010

**Schedule II**

<u>Deposit Type</u>	<u>First American Bank</u>	<u>Western Bank</u>	<u>Total</u>
Operational - NOW checking	\$ 93,578	\$ -	\$ 93,578
Regular - MMF Checking	1,291,485	-	1,291,485
Bond sinking fund - MMF checking	3,719,327	-	3,719,327
General needs - NOW checking	5,032	-	5,032
AGH Reserve - NOW checking	-	-	-
Certificate of deposit	-	1,258,382	1,258,382
Total on deposit	<u>5,109,422</u>	<u>1,258,382</u>	<u>6,367,804</u>
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	<u>(63,522)</u>	<u>-</u>	<u>(63,522)</u>
Total June 30, 2010	<u>\$ 5,045,900</u>	<u>\$ 1,258,382</u>	<u>\$ 6,304,282</u>

Reconciliation to June 30, 2010

Statement of Net Assets

Unrestricted cash and cash equivalents	\$ 1,321,541
Investments	1,258,382
Cash restricted by donor for cardiac and general care	5,032
Cash restricted by donor for AGH reserve	-
Cash restricted by bond indenture for debt service	<u>3,719,327</u>
	<u>\$ 6,304,282</u>

See Independent Auditor's Report

**Artesia Special Hospital District**  
Schedule of Revenues and Expenses with Budget  
Comparison - (Non-GAAP Budgetary Basis)  
For the Year Ended June 30, 2010

Schedule III

	<b>Original Budget</b>	<b>Final Appropriated Budget</b>	<b>Non-GAAP Budgetary Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues:</b>				
Mill levy taxes	\$ 2,393,639	\$ 3,908,996	\$ 3,908,997	\$ 1
Less amounts passed through to: AGH	(2,543,054)	(3,460,372)	(3,486,525)	(26,153)
GO Bond mill levy	1,598,507	2,406,669	2,406,669	-
Lease income	413,332	418,668	418,668	-
Investment income	60,420	54,998	81,150	26,152
Capital grants/Gifts	-	160,000	160,000	-
Other	580	1,883	1,883	-
<b>Total revenues</b>	<b>1,923,424</b>	<b>3,490,842</b>	<b>3,490,842</b>	<b>-</b>
<b>Expenses</b>				
Current:				
Miscellaneous	10,506	62,076	62,075	1
Professional fees	50,127	52,349	52,349	-
Insurance	11,000	10,230	10,230	-
Rentals and leases	-	-	-	-
Capital projects	1,525,515	2,287,102	2,287,102	-
Debt service:				
Principal payments	1,670,000	1,670,000	1,670,000	-
Interest	815,053	815,053	815,053	-
<b>Total expenses</b>	<b>4,082,201</b>	<b>4,896,810</b>	<b>4,896,809</b>	<b>1</b>
<b>(Deficiency) excess of revenues over expenses</b>	<b>(2,158,777)</b>	<b>(1,405,968)</b>	<b>(1,405,967)</b>	<b>1</b>
<b>Other financing sources and (uses):</b>				
GO Bond proceeds	-	-	-	-
<b>Total other financing sources and (uses):</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>(2,158,777)</b>	<b>(1,405,968)</b>	<b>(1,405,967)</b>	<b>\$ 1</b>
<b>Cash and investments required to balance budget</b>				
	2,158,777	1,405,968		
	\$ -	\$ -		
<b>Reconciliation to Statement of Revenues and Expenses:</b>				
Decrease for capital asset expenses			2,287,102	
Principal payments			1,670,000	
Depreciation and amortization			(1,914,587)	
Changes in payables			39,361	
Changes in receivables and due to AGH			1,459,656	
<b>Increase in net assets</b>			<b>\$ 2,135,565</b>	

See Independent Auditor's Report.



**COMPLIANCE SECTION**

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**Accounting & Consulting Group, LLP**  
Certified Public Accountants

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

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 basic financial statements of the business-type activities of Artesia Special Hospital District (the District) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 6, 2010. 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

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 opinion 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 *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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 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 6, 2010

**Artesia Special Hospital District**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**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.

***Agency 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.

**Artesia Special Hospital District**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

**2007-2 Segregation of Duties**

***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.

***Agency 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.

**Artesia Special Hospital District**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**PRIOR YEAR FINDINGS**

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

**Artesia Special Hospital District**  
Other Disclosures  
June 30, 2010

**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 personnel 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, 2010. The following individuals were in attendance.

Artesia Special Hospital District  
**Dennis Maupin, Chairman**  
**S. Gary Sims Secretary/Treasurer**

Auditors  
**Ray Roberts, Partner**