ARTESIA SPECIAL HOSPITAL DISTRICT

EDDY COUNTY, NEW MEXICO

FINANCIAL STATEMENTS

AS OF JUNE 30, 2011 AND 2010

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INTRODUCTORY SECTION

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Artesia Special Hospital District
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FINANCIAL SECTION

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 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, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated October 7, 2011. We also have audited Schedule III - Schedule of Revenues and Expenses with Budget Comparison presented as supplementary information for the year ended June 30, 2011. 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 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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 of Artesia Special Hospital District, as of June 30, 2011 and 2010, and the respective changes in financial position thereof, and cash flows, and the budgetary comparison for the enterprise fund for the years then ended 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 7, 2011, 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.

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Our audit was conducted for the purpose of forming opinions on the basic financial statements and the 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 Deposits 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 7, 2011

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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, 2011 and 2010. Please read it in conjunction with the District's financial statements.

Financial Highlights

- The District's change in unrestricted net assets between 2011 and 2010 was $328,926 or a 12.5% increase mainly due to operating revenues exceeding the operating expenses by $274,785, 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 $1,740,000 in 2011.
- The District reported an operating loss of $1,735,138 in 2010 and an operating loss of $1,869,104 in 2011 mainly due to Mill Levy collections passed through to Artesia General Hospital and increased depreciation and amortization expenses. 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 $274,785 in 2011. 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 2010. 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 2010-2011 resulting in an Operating mill levy tax revenue increase of $998,839 or 25.9%.
- The 2011 General Obligation Bond mill levy was $2,961,600 in 2011 and $2,320,978 in 2010.
- There were no construction in progress expenditures during the years ended June 30, 2011 and 2010 respectively.

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

	2011	2010	2009
Assets:			
Current assets	$ 3,853,260	$ 3,328,565	$ 3,267,321
Capital assets	27,377,393	29,404,055	29,026,093
Other non-current assets	4,170,385	3,807,950	5,535,517
Total assets	$ 35,401,038	$ 36,540,570	$ 37,828,931
Liabilities:			
Long term obligations outstanding	$ 19,071,677	$ 20,811,906	$ 22,482,146
Other current and non-current liabilities	978,442	788,120	2,541,806
Total Liabilities	20,050,119	21,600,026	25,023,952
Net assets:			
Invested in capital assets net of related debt	8,305,716	8,592,149	6,537,642
Restricted for capital improvements	-	-	-
Restricted for general care	5,045	5,032	5,014
Restricted for cardiac care			
Restricted for debt service	4,087,196	3,719,327	3,766,536
Unrestricted	2,952,962	2,624,036	2,495,787
Total net assets	15,350,919	14,940,544	12,804,979
Total liabilities and net assets	$ 35,401,038	$ 36,540,570	$ 37,828,931

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 $410,375 or 2.75% as you can see from Table 2.

Operating Results and Changes in the District's Net Assets

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

	2011	2010	2009
Operating revenues			
Mill levy taxes	$ 4,863,512	$ 3,864,673	$ 4,340,675
Less amouns passed			
through to: AGH	(4,863,512)	(3,437,889)	(3,617,229)
AGH reserve	-	(426,784)	(723,446)
Lease income	378,000	293,668	250,004
Other	352	1,883	10,067
Total operating revenues	378,352	295,551	260,071
Operating expenses			
Miscellaneous	800	7,684	96
Professional fees	32,273	49,700	46,173
Advertising	-	3,652	1,363
Insurance	10,342	5,541	10,506
Rents and leases	-	-	2,778
Indigent care	60,152	49,525	-
Depreciation and			
amortization	2,143,889	1,914,587	1,753,902
Total operating expenses	2,247,456	2,030,689	1,814,818
Operating income (loss)	(1,869,104)	(1,735,138)	(1,554,747)
Nonoperating revenues and expenses			
Mill levy funds used for capital			
expenditures	-	2,097,401	-
G.O. bond mill levy	2,961,600	2,320,978	3,089,834
Investment income	37,329	76,568	79,195
Interest expense	(719,450)	(784,244)	(846,129)
Total nonoperating revenues (expenses)	2,279,479	3,710,703	2,322,900
Excess of revenues over expenses			
before capital grants, contributions,			
and additions to permanent endowments	410,375	1,975,565	768,153
Restricted contributions	-	160,000	-
Capital Grants	-	-	308,650
Increase in net assets	410,375	2,135,565	1,076,803
Net assets beginning of year	14,940,544	12,804,979	11,728,176
Net assets end of year	$ 15,350,919	$ 14,940,544	$ 12,804,979

Operating Income/(Loss)

Operating income/(loss) consists of three main items. One, the mill levy funds ($4,863,512 in 2011) are collected and paid directly to the management company operating the Hospital. The mill levy funds consist 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 did not receive any capital grant revenue from state agencies for the purchase of equipment in 2011.

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 2011, the District had $27,377,393 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2011, the District purchased equipment costing $92,882 and completed land improvements costing $18,898 for total capital asset additions of $111,780.

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 $17,281,677, net of current maturities of $1,790,000, 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

There were no subsequent events after the fiscal year ended June 30, 2011 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, 2011 and 2010

Assets

		2011		2010
Current Assets				
Cash and cash equivalents (Note 2)	$	1,497,046	$	1,321,541
Investments		1,260,403		1,258,382
Mill levy receivable, net (Note 5)		1,090,841		743,877
Accrued interest receivable		281		76
Prepaid expenses		4,689		4,689
Total current assets		3,853,260		3,328,565
Noncurrent cash and investments				
Cash restricted by donor for cardiac and general care		5,045		5,032
Cash restricted by bond indenture for debt service		4,087,196		3,719,327
Land		60,052		60,052
Depreciable capital assets, net of accumulated depreciation (Note 7)		27,317,341		29,344,003
Bond issuance costs net of accumulated amortization of $30,804 in 2011 and $23,357 in 2010		78,144		83,591
Total noncurrent assets		31,547,778		33,212,005
Total assets	$	35,401,038	$	36,540,570

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

Artesia Special Hospital District
Statements of Net Assets
June 30, 2011 and 2010

Liabilities and Net Assets

		2011		2010
Current Liabilities				
Accounts payable (Note 6)	$	2,798	$	2,443
Due to AGH		678,001		461,357
Accrued interest (Note 6)		297,643		324,320
Current portion of long-term debt		1,790,000		1,740,000
Total current liabilities		2,768,442		2,528,120
Long Term Liabilities				
Long-term debt, net of current maturities (Note 8)		17,281,677		19,071,906
Total liabilities		20,050,119		21,600,026
Net Assets				
Invested in capital assets, net of related debt		8,305,716		8,592,149
Restricted, expendable for:				
General care		5,045		5,032
Debt service		4,087,196		3,719,327
Unrestricted		2,952,962		2,624,036
Total net assets		15,350,919		14,940,544
Total liabilities and net assets	$	35,401,038	$	36,540,570

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

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Artesia Special Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Mill levy taxes		
Ad-valorem taxes	$ 1,661,082	$ 1,145,596
Oil and gas taxes	3,202,430	2,719,077
Less amounts passed through to AGH	(4,863,512)	(3,437,889)
Less amounts passed through to AGH Reserve	-	(426,784)
Lease income	378,000	293,668
Other	352	1,883
Total operating revenues	378,352	295,551
Operating Expenses		
Miscellaneous	800	7,684
Advertising	-	3,652
Insurance	10,342	5,541
Professional fees	32,273	49,700
Indigent Care	60,152	49,525
Depreciation and amortization	2,143,889	1,914,587
Total operating expenses	2,247,456	2,030,689
Operating income (loss)	(1,869,104)	(1,735,138)
Nonoperating Revenues (Expenses):		
Mill Levy funds used for capital expenditures	-	2,097,401
GO Bond mill levy	2,961,600	2,320,978
Investment income	37,329	76,568
Interest expense	(719,450)	(784,244)
Total nonoperating revenues and expenses	2,279,479	3,710,703
Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments	410,375	1,975,565
Contributions restricted to capital improvements	-	160,000
Increase in net assets	410,375	2,135,565
Net assets - beginning of the year	14,940,544	12,804,979
Net assets - end of the year	$ 15,350,919	$ 14,940,544

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

Artesia Special Hospital District
Statements of Cash Flows
For the years ended June 30, 2011 and 2010

		2011		2010
Cash flows from operating activities:				
Receipts from customers and users	$	352	$	1,883
Receipts from leases		378,000		418,668
Payments to vendors		(103,212)		(124,653)
Net cash provided by operating activities		**275,140**		**295,898**
Cash flows from non-capital financing activities:				
Mill levy taxes		4,646,729		3,908,997
Pass through of mill levy taxes to AGH		(4,646,729)		(3,486,525)
Net cash provided by non-capital financing activities		**-**		**422,472**
Cash flows from capital and related financing activities:				
Gift revenue		-		160,000
GO Bond mill levy		2,831,280		2,406,669
Purchase of capital assets		(111,780)		(2,287,102)
Interest payments on long-term debt		(746,356)		(815,055)
Principal payments on long-term debt		(1,740,000)		(1,670,000)
Net cash provided (used) by capital and related financing activities		**233,144**		**(2,205,488)**
Cash flows from investing activities:				
Investment income		37,124		81,150
Purchase of investments		(2,021)		(1,258,382)
Net cash provided (used) by investing activities		**35,103**		**(1,177,232)**
Net increase (decrease) in cash		**543,387**		**(2,664,350)**
Cash - beginning of year		**5,045,900**		**7,710,250**
Cash - end of year	**$**	**5,589,287**	$	**5,045,900**
Unrestricted cash and cash equivalents	**$**	**1,497,046**	$	**1,321,541**
Restricted cash and cash equivalents				
Restricted by donor for cardiac and general care		5,045		5,032
Restricted for debt service		4,087,196		3,719,327
Total cash and cash equivalents	**$**	**5,589,287**	$	**5,045,900**

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

Artesia Special Hospital District
Statements of Cash Flows
For the years ended June 30, 2011 and 2010

		2011		2010
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	(1,869,104)	$	(1,735,138)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation and amortization		2,143,889		1,914,587
Increase (decrease) in:				
Accounts payable		355		(3,862)
Decrease (increase) in:				
Accounts receivable		-		125,000
Prepaid Insurance		-		(4,689)
Net cash provided by operating activities	$	275,140	$	295,898

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 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 the 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 is maintained at a local financial institution. 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 2013 (See Note 5 for additional information regarding renewal). The District recorded $4,863,512 in 2011 and $3,864,673 in 2010 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 $2,961,600 in 2011 and $2,320,978 in 2010 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.

<u>Grants and Contributions</u> –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.

<u>Restricted Resources</u> – 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.

<u>Net Assets</u> – 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 $4,092,241 of restricted net assets, of which $0 is restricted by enabling legislation.

<u>Operating Revenues and Expenses</u> – 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.

<u>Revenue Recognition for Derived Tax Revenues</u> – 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.

<u>Budgets and Budgetary Accounting</u> – 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, 2011 and 2010, the District was not aware of any non-compliance with these requirements.

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, 2011 financial statement presentation.

NOTE 2. DEPOSITS AND INVESTMENTS

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 collateralized as required by statute. The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance.

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 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 (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state were insured up to $250,000 in aggregate and separate from the $250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions. The separate coverage on non-interest bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

· Up to $250,000 for the combined total of all time and savings deposits (including NOW accounts), and
· Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

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, 2011 and 2010, $6,350,308 and $5,867,804 of the District's bank balances were exposed to custodial credit risk.

The collateral pledged is listed on Schedule I on this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, District or political subdivision of the State of New Mexico.

	First American	Western Bank	Total
Year ended June 30, 2011			
Total amount of deposits	$ 5,589,905	$ 1,260,403	$ 6,850,308
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	5,339,905	1,010,403	6,350,308
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	5,339,905	692,911	6,032,816
Uninsured and uncollateralized	$ -	$ 317,492	$ 317,492
Collateral requirement (50% of uninsured public funds)	$ 2,669,953	$ 505,202	$ 3,175,155
Pledged securities	5,543,598	692,911	6,236,509
Over (under) collateralization	$ 2,873,645	$ 187,709	$ 3,061,354

	First American	Western Bank	Total
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	4,859,422	1,008,382	5,867,804
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	4,859,422	683,235	5,542,657
Uninsured and uncollateralized	$ -	$ 325,147	$ 325,147
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	$ 3,585,817	$ 179,044	$ 3,764,861

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to the Statement of Net Assets

		2011		2010
Deposits	$	6,850,308	$	6,367,804
Reconciling items		(618)		(63,522)
Carrying amount	$	6,849,690	$	6,304,282

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

		2011		2010
Cash and cash equivalents	$	1,497,046	$	1,321,541
Investments		1,260,403		1,258,382
Non-current cash and investments				
Restricted by donor for cardiac and general care		5,045		5,032
Restricted for debt service		4,087,196		3,719,327
Total	$	6,849,690	$	6,304,282

NOTE 3. RESTRICTED NET ASSETS

Restricted net assets are expendable for the following purposes:

		2011		2010
General care	$	5,045	$	5,032
Debt Service		4,087,196		3,719,327
Total restricted net assets	$	4,092,241	$	3,724,359

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, 2011. 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, 2011.

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 2011 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 $612, based on an estimate of all amounts outstanding.

The District received cash operating mill levy proceeds of $4,646,488 and $3,908,997 in 2011 and 2010 respectively and passed through to AGH and Dialysis Unit the amounts of $4,646,729 and $3,486,525 in 2011 and 2010, 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 expired in 2009. In August of 2009 the mill levy was voted in favor of renewal for tax years 2011 to 2013.

The District recorded General Obligation Bond mill levy revenues of $2,961,600 and $2,320,978 in 2011 and 2010, 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 $1,090,841 and $743,877 at June 30, 2011 and 2010 respectively. Mill levy receivable consists of the following at June 30, 2011 and 2010:

		2011		2010
Mill levy receivable				
Ad-valorem	$	61,220	$	38,638
Oil and gas		1,030,233		705,625
Less: allowance for uncollectible amounts		(612)		(386)
Mill levy receivable	$	1,090,841	$	743,877

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, 2011 and 2010 consisted of these amounts:

Accounts Receivable and Accrued Interest		**2011**		**2010**
Mill levy receivable, net of uncollectible amounts	$	1,090,841	$	743,877
Accrued interest receivable		281		76
Total accounts receivable and accrued interest	$	1,091,122	$	743,953

Accounts Payable and Accrued Expenses		**2011**		**2010**
Accounts payable to contractors and others	$	2,798	$	2,443
Accrued bond interest payable		297,643		324,320
Total accounts payable and accrued expenses	$	300,441	$	326,763

NOTE 7. CAPITAL ASSETS

Capital assets, additions, retirements, and balances for the year ended June 30, 2011 are as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Non-depreciable assets:				
Land	$ 60,052	$ -	$ -	$ 60,052
	60,052	-	-	60,052
Depreciable assets:				
Land improvements	1,229,969	18,898	-	1,248,867
Buildings and improvements	33,862,405	-	-	33,862,405
Equipment	9,925,132	92,882	-	10,018,014
	45,017,506	111,780	-	45,129,286
Accumulated depreciation				
Land improvements	(582,965)	(94,337)	-	(677,302)
Buildings and improvements	(8,410,682)	(1,365,272)	-	(9,775,954)
Equipment	(6,679,856)	(678,833)	-	(7,358,689)
	(15,673,503)	(2,138,442)	-	(17,811,945)
Net capital assets	$ 29,404,055	$ (2,026,662)	$ -	$ 27,377,393

Depreciation expense for the periods ended June 30, 2011 and 2010 was $2,138,442 and $1,909,140 and interest capitalized for the years ended June 30, 2011 and 2010 was $23,901 and $23,902, respectively.

NOTE 7. CAPITAL ASSETS (continued)

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

	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Non-depreciable assets:				
Land	$ 60,052	$ -	$ -	$ 60,052
	60,052	-	-	60,052
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
	42,730,404	2,287,102	-	45,017,506
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)
	(13,764,363)	(1,909,140)	-	(15,673,503)
Net capital assets	$ 29,026,093	$ 377,962	$ -	$ 29,404,055

NOTE 8. LONG-TERM DEBT

A schedule of changes in the District's General Obligation Bonds for 2011 and 2010 follows:

	Balance June 30, 2010	Additions	Reductions/ Adjustments	Balance June 30, 2011	Amounts Due Within One Year
2005 GO Bond	$ 14,910,000	$ -	$ 1,240,000	$ 13,670,000	$ 1,290,000
2006 GO Bond	5,900,000	-	500,000	5,400,000	500,000
2006 Premium	1,906	-	229	1,677	-
Total Long-Term Debt	$ 20,811,906	$ -	$ 1,740,229	$ 19,071,677	$ 1,790,000

	Balance June 30, 2009	Additions	Reductions/ Adjustments	Balance June 30, 2010	Amounts Due Within One Year
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	$ 22,482,146	$ -	$ 1,670,240	$ 20,811,906	$ 1,740,000

NOTE 8. LONG-TERM DEBT (continued)

Bonds outstanding at June 30, 2011, 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% - 4.50%
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
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	1,510,000	290,444	1,800,444
2017-2020	6,675,000	545,338	7,220,338
Total	$ 13,670,000	$ 2,495,476	$ 16,165,476

General Obligation Bonds Series : 2006
Original Issue : $8,000,000
Principal : August 1
Interest : February 1 and August 1
Rates : 3.75% - 4.50%
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
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	600,000	109,688	709,688
2017-2020	2,650,000	202,794	2,852,794
Total	$ 5,400,000	$ 973,328	$ 6,373,328

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. 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 2011 is $111.

NOTE 10. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is October 7, 2011 which is the date on which the financial statements were issued.

NOTE 11. SUBSEQUENT PRONOUNCEMENTS

In November 2010, GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements,* Effective Date: For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The standard is expected to have no effect on the District in upcoming years.

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30*, *1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2011, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53 Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the District in upcoming years.

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SUPPLEMENTARY INFORMATION

Artesia Special Hospital District **Schedule I**

Schedule of Collateral Pledged by Depository

For Public Funds

June 30, 2011

Name of Depository and Description of Pledged Collateral		Fair Market/Par Value June 30, 2011	Name and Location of Safekeeper
First American			
Lovington NM FGIC INSD			Federal Home Loan Bank
Due 9/1/11, CUSIP #547473BR8**	$	300,000	Dallas, Texas
FHLB 1 Time Call			Federal Home Loan Bank
Due 6/22/16, CUSIP #3133XYU45		756,479	Dallas, Texas
FHLB 1 Time Call			Federal Home Loan Bank
Due 5/24/18, CUSIP #313371NE2		1,017,119	Dallas, Texas
Texico NM Muni Sch District			Federal Home Loan Bank
Due 8/1/21, CUSIP #883005CH1**		85,000	Dallas, Texas
Belen NM Cons Sch District			Federal Home Loan Bank
Due 8/1/22, CUSIP #077581NG7**		750,000	Dallas, Texas
Clovis NM Muni SD #001			Federal Home Loan Bank
Due 8/1/22, CUSIP #189414GQ2**		800,000	Dallas, Texas
Clovis NM Muni SD #001			Federal Home Loan Bank
Due 8/1/23, CUSIP #189414GR0**		775,000	Dallas, Texas
Hobbs NM Sch Dist #16			Federal Home Loan Bank
Due 4/15/24, CUSIP #433866DR8**		760,000	Dallas, Texas
Alamogordo NM Assur			First American Bank
Due 8/1/28, CUSIP #011446GB1**		300,000	Dallas, Texas
	$	5,543,598	
Western Bank			
FHLMC Pool			Federal Home Loan Bank
Due 5/1/13, CUSIP #3133HAQ6	$	8,665	Dallas, Texas
FHLMC Pool			Federal Home Loan Bank
Due 5/1/13, CUSIP #31335HAQ6		2,906	Dallas, Texas
GNMA II Pool			Federal Home Loan Bank
Due 6/20/24, CUSIP #36202B5N1		52,687	Dallas, Texas
FHLB			Federal Home Loan Bank
Due 1/16/32, CUSIP #38373YA38		378,653	Dallas, Texas
Hobbs NM			Federal Home Loan Bank
Due 4/15/24, CUSIP 433866DR8**		250,000	Dallas, Texas
	$	692,911	

** As per NMSA 2.2.2.10(N)(4)(5)(e), the value of collateral consisting of obligations of the State of New Mexico, its agencies, institutions, counties, municipalities, or other subdivisions, shall be par value

Artesia Special Hospital District **Schedule II**
Schedule of Deposit and Investment Accounts
June 30, 2011

Deposit Type	First American Bank	Western Bank	Total
Operational - NOW checking	$ 195,255	$ -	$ 195,255
Regular - MMF Checking	1,302,409	-	1,302,409
Bond sinking fund - MMF checking	4,087,196	-	4,087,196
General needs - NOW checking	5,045	-	5,045
Certificate of deposit	-	1,260,403	1,260,403
Total on deposit	5,589,905	1,260,403	6,850,308
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	(618)	-	(618)
Total June 30, 2011	$ 5,589,287	$ 1,260,403	$ 6,849,690

Reconciliation to the June 30, 2011	
Statement of Net Assets	
Unrestricted cash and cash equivalents	$ 1,497,046
Investments	1,260,403
Cash restricted by donor for cardiac and general care	5,045
Cash restricted by bond indenture for debt service	4,087,196
	$ 6,849,690

See Independent Auditor's Report

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Artesia Special Hospital District **Schedule III**

Schedule of Revenues and Expenses with Budget
Comparison - (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Final Appropriated Budget	Non-GAAP Budgetary Actual	Variance with Final Budget
Revenues:				
Mill levy taxes	$ 3,420,000	$ 4,646,869	$ 4,646,488	$ (381)
Less amounts passed through to: AGH	(3,420,000)	(4,646,869)	(4,646,488)	381
GO Bond mill levy	2,150,000	2,831,279	2,831,280	1
Lease income	378,000	378,000	378,000	-
Investment income	35,700	37,124	37,124	-
Other	700	352	352	-
Total revenues	2,564,400	3,246,755	3,246,756	1
Expenses				
Current:				
Miscellaneous	1,200	801	800	1
Professional fees	35,500	31,919	31,918	1
Insurance	11,000	10,341	10,342	1
Indigent Care	-	60,152	60,152	-
Capital projects	600,000	111,780	111,780	-
Debt service:				
Principal payments	1,740,000	1,740,000	1,740,000	-
Interest	746,356	746,356	746,127	229
Total expenses	3,134,056	2,701,349	2,701,119	232
(Deficiency) excess of revenues over expenses	(569,656)	545,406	545,637	233
Change in net assets	(569,656)	545,406	545,637	$ 233
Cash and investments required to balance budget	569,656	(545,406)		
	$ -	$ -		

Reconciliation to Statement of Revenues and Expenses:

Decrease for capital asset expenses	111,780
Principal payments	1,740,000
Depreciation and amortization	(2,143,889)
Changes in payables	130,525
Changes in receivables and due to AGH	26,322
Increase in net assets	$ 410,375

See Independent Auditor's Report

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COMPLIANCE SECTION

Accounting & Consulting Group, LLP
Certified Public Accountants

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 Board of Trustees and
Management of 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, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated October 7, 2011. We also have audited Schedule III - Schedule of Revenues and Expenses with Budget Comparison presented as supplementary information for the year ended June 30, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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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*.

This report is intended solely for the information and use of the Board of Trustee’s, others within the organization, the Department of Finance and Administration, the Office of the State Auditor, the New Mexico Legislature, federal awarding agencies and pass-through entities, such as the Department of Finance and Administration, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting + Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
October 7, 2011

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Artesia Special Hospital District
Schedule of Financial Statement Findings and Responses
June 30, 2011

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

1.	Type of auditors' report issued	Unqualified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	No
	b. Significant deficiencies identified not considered to be material weaknesses?	No
	c. Noncompliance material to the financial statements noted?	No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

No Audit Findings

C. PRIOR YEAR AUDIT FINDINGS

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

Artesia Special Hospital District
Other Disclosures
June 30, 2011

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 11, 2011. The following individuals were in attendance.

Artesia Special Hospital District	Auditor
S. Gary Sims, Secretary/Treasurer	**Ray Roberts, Partner**