

ARTESIA SPECIAL HOSPITAL DISTRICT
EDDY COUNTY, NEW MEXICO
FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 AND 2011

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INTRODUCTORY SECTION

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Artesia Special Hospital District

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June 30, 2012

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Artesia Special Hospital District
Official Roster
June 30, 2012

Board of Trustees

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

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2012 and 2011, 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, 2012. We also have audited Schedule III - Schedule of Revenues and Expenses with Budget Comparison (NM – GAAP Budgetary Basis) presented as supplementary information for the year ended June 30, 2012. 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, 2012 and 2011, 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, 2012, 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 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 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, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants

Albuquerque, New Mexico
October 7, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Artesia Special Hospital District's (the District) financial performances provides an overview of the District's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the District's financial statements.

Financial Highlights

- The District's change in unrestricted net assets between 2012 and 2011 was \$189,127 or a 6.4% increase mainly due to operating revenues exceeding the operating expenses by \$255,835, 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 payments on general obligation bond debt were \$1,790,000 in 2012.
- The District reported an operating loss of \$1,869,104 in 2011 and an operating loss of \$1,841,150 in 2012 mainly due to Mill Levy collections passed through to Artesia General Hospital (AGH) and increased depreciation and amortization expenses. While the District receives operating mill levy collections that exceed depreciation deductions, these collections are passed through to 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 \$255,835 in 2012. 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 2011-2012 resulting in an Operating mill levy tax revenue increase of \$1,182,177 or 24.3%.
- The 2012 General Obligation Bond mill levy was \$2,574,764 in 2011 and \$2,961,600 in 2011.
- There were no construction in progress expenditures during the years ended June 30, 2012 and 2011 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.

Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2012

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 4,158,583	\$ 3,853,260	\$ 3,328,565
Capital assets	25,285,855	27,377,393	29,404,055
Other non-current assets	4,381,525	4,170,385	3,807,950
Total assets	<u>\$ 33,825,963</u>	<u>\$ 35,401,038</u>	<u>\$ 36,540,570</u>
Liabilities:			
Long-term obligations outstanding	\$ 17,281,452	\$ 19,071,677	\$ 20,811,906
Other current and non-current liabilities	1,089,191	978,442	788,120
Total Liabilities	<u>18,370,643</u>	<u>20,050,119</u>	<u>21,600,026</u>
Net assets:			
Invested in capital assets net of related debt	8,004,403	8,305,716	8,592,149
Restricted for general care	5,051	5,045	5,032
Restricted for debt service	4,303,777	4,087,196	3,719,327
Unrestricted	3,142,089	2,952,962	2,624,036
Total net assets	<u>15,455,320</u>	<u>15,350,919</u>	<u>14,940,544</u>
Total liabilities and net assets	<u>\$ 33,825,963</u>	<u>\$ 35,401,038</u>	<u>\$ 36,540,570</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 \$104,401 or .68% as you can see from Table 2 below.

Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2012

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Mill levy taxes	\$ 6,045,689	\$ 4,863,512	\$ 3,864,673
Less amounts passed through to: AGH	(6,045,689)	(4,863,512)	(3,437,889)
AGH reserve	-	-	(426,784)
Lease income	378,000	378,000	293,668
Other	359	352	1,883
Total operating revenues	<u>378,359</u>	<u>378,352</u>	<u>295,551</u>
Operating expenses			
Miscellaneous	93	800	7,684
Professional fees	29,431	32,273	49,700
Advertising	57	-	3,652
Insurance	11,472	10,342	5,541
Indigent care	81,471	60,152	49,525
Depreciation and amortization	2,096,985	2,143,889	1,914,587
Total operating expenses	<u>2,219,509</u>	<u>2,247,456</u>	<u>2,030,689</u>
Operating income (loss)	<u>(1,841,150)</u>	<u>(1,869,104)</u>	<u>(1,735,138)</u>
Non-operating revenues and expenses			
Mill levy funds used for capital expenditures	-	-	2,097,401
G.O. bond mill levy	2,574,764	2,961,600	2,320,978
Investment income	24,612	37,329	76,568
Interest expense	(653,825)	(719,450)	(784,244)
Total non-operating revenues (expenses)	<u>1,945,551</u>	<u>2,279,479</u>	<u>3,710,703</u>
Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments	104,401	410,375	1,975,565
Restricted contributions	-	-	160,000
Increase in net assets	104,401	410,375	2,135,565
Net assets beginning of year	<u>15,350,919</u>	<u>14,940,544</u>	<u>12,804,979</u>
Net assets end of year	<u>\$ 15,455,320</u>	<u>\$ 15,350,919</u>	<u>\$ 14,940,544</u>

Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2012

Operating Income (Loss)

Operating income (loss) consists of three main items. One, the mill levy funds (\$6,045,689 in 2012) are collected and paid directly to the management company operating AGH. 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 AGH. 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 2012.

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 Fiscal Year 2012, the District had \$25,285,855 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2012, the District did not make any capital asset additions purchases.

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 \$15,411,452, net of current maturities of \$1,870,000, of General Obligation Bonds outstanding as outlined in Note 8 to the financial statements. Debt was incurred for renovations and new construction for AGH.

Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2012

Subsequent Events

Subsequent to year end the District approved the issuance of bonds to refund and defease the Series 2005 Bonds maturing on and after August 1, 2013. The Bonds are general obligation refunding bonds to be issued by the District in the total principal amount of \$8,680,000 and will be dated on or about October 30, 2012.

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, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,761,217	\$ 1,497,046
Investments	1,261,305	1,260,403
Mill levy receivable, net (Note 5)	1,131,715	1,090,841
Accrued interest receivable	83	281
Prepaid expenses	4,263	4,689
Total current assets	<u>4,158,583</u>	<u>3,853,260</u>
Noncurrent cash and investments		
Cash restricted by donor for cardiac and general care	5,051	5,045
Cash restricted by bond indenture for debt service	4,303,777	4,087,196
Land	60,052	60,052
Depreciable capital assets, net of accumulated depreciation (Note 7)	25,225,803	27,317,341
Bond issuance costs net of accumulated amortization of \$36,251 in 2012 and \$30,804 in 2011	72,697	78,144
Total noncurrent assets	<u>29,667,380</u>	<u>31,547,778</u>
Total assets	<u>\$ 33,825,963</u>	<u>\$ 35,401,038</u>

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

Artesia Special Hospital District
 Statements of Net Assets
 June 30, 2012 and 2011

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Accounts payable (Note 6)	\$ 3,012	\$ 2,798
Due to AGH	815,942	678,001
Accrued interest (Note 6)	270,237	297,643
Current portion of long-term debt	1,870,000	1,790,000
Total current liabilities	2,959,191	2,768,442
Long-Term Liabilities		
Long-term debt, net of current maturities (Note 8)	15,411,452	17,281,677
Total liabilities	18,370,643	20,050,119
Net Assets		
Invested in capital assets, net of related debt	8,004,403	8,305,716
Restricted, expendable for:		
General care	5,051	5,045
Debt service	4,303,777	4,087,196
Unrestricted	3,142,089	2,952,962
Total net assets	15,455,320	15,350,919
Total liabilities and net assets	\$ 33,825,963	\$ 35,401,038

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, 2012 and 2011

	2012	2011
Operating Revenues		
Mill levy taxes		
Ad valorem taxes	\$ 1,738,649	\$ 1,661,082
Oil and gas taxes	4,307,040	3,202,430
Less amounts passed through to AGH	(6,045,689)	(4,863,512)
Lease income	378,000	378,000
Other	359	352
Total operating revenues	378,359	378,352
Operating Expenses		
Miscellaneous	93	800
Advertising	57	-
Insurance	11,472	10,342
Professional fees	29,431	32,273
Indigent Care	81,471	60,152
Depreciation and amortization	2,096,985	2,143,889
Total operating expenses	2,219,509	2,247,456
Operating income (loss)	(1,841,150)	(1,869,104)
Non-operating Revenues (Expenses):		
GO Bond mill levy	2,574,764	2,961,600
Investment income	24,612	37,329
Interest expense	(653,825)	(719,450)
Total non-operating revenues and expenses	1,945,551	2,279,479
Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments	104,401	410,375
Increase in net assets	104,401	410,375
Net assets - beginning of the year	15,350,919	14,940,544
Net assets - end of the year	\$ 15,455,320	\$ 15,350,919

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, 2012 and 2011

	2012	2011
<i>Cash flows from operating activities:</i>		
Receipts from customers and users	\$ 359	\$ 352
Receipts from leases	378,000	378,000
Payments to vendors	(121,884)	(103,212)
<i>Net cash provided (used) by operating activities</i>	256,475	275,140
<i>Cash flows from non-capital financing activities:</i>		
Mill levy taxes	5,907,479	4,646,729
Pass through of mill levy taxes to AGH	(5,907,479)	(4,646,729)
<i>Net cash provided (used) by non-capital financing activities</i>	-	-
<i>Cash flows from capital and related financing activities:</i>		
GO Bond mill levy	2,671,831	2,831,280
Purchase of capital assets	-	(111,780)
Interest payments on long-term debt	(681,456)	(746,356)
Principal payments on long-term debt	(1,790,000)	(1,740,000)
<i>Net cash provided (used) by capital and related financing activities</i>	200,375	233,144
<i>Cash flows from investing activities:</i>		
Investment income	24,810	37,124
Purchase of investments	(902)	(2,021)
<i>Net cash provided (used) by investing activities</i>	23,908	35,103
<i>Net increase in cash</i>	480,758	543,387
<i>Cash - beginning of year</i>	5,589,287	5,045,900
<i>Cash - end of year</i>	\$ 6,070,045	\$ 5,589,287
Unrestricted cash and cash equivalents	\$ 1,761,217	\$ 1,497,046
Restricted cash and cash equivalents		
Restricted by donor for cardiac and general care	5,051	5,045
Restricted for debt service	4,303,777	4,087,196
Total cash and cash equivalents	\$ 6,070,045	\$ 5,589,287

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, 2012 and 2011

	2012	2011
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Operating income (loss)	\$ (1,841,150)	\$ (1,869,104)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation and amortization	2,096,985	2,143,889
Increase (decrease) in:		
Accounts payable	214	355
Decrease (increase) in:		
Prepaid Insurance	426	-
Net cash provided (used) by operating activities	\$ 256,475	\$ 275,140

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

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Artesia Special Hospital District

Notes to the Financial Statements

June 30, 2012 and 2011

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. 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 paragraphs:

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.

Artesia Special Hospital District

Notes to the Financial Statements

June 30, 2012 and 2011

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 \$6,045,689 in 2012 and \$4,863,512 in 2011 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 \$2,574,764 in 2012 and \$2,961,600 in 2011 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). 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, 2012 and 2011

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

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

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

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

Net Assets – Net assets of the District are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*. The Statement of Net Assets reports \$4,308,828 of restricted net assets, of which \$0 is restricted by enabling legislation.

Operating Revenues and Expenses – The District's 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, 2012 and 2011, the District was not aware of any non-compliance with these requirements.

Artesia Special Hospital District

Notes to the Financial Statements

June 30, 2012 and 2011

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, 2012 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. 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

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, \$6,831,350 and \$6,350,308 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.

	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
Year ended June 30, 2012			
Total amount of deposits	\$ 6,070,045	\$ 1,261,305	\$ 7,331,350
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	<u>5,820,045</u>	<u>1,011,305</u>	<u>6,831,350</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name			
	<u>5,820,045</u>	<u>498,133</u>	<u>6,318,178</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 513,172</u>	<u>\$ 513,172</u>
Collateral requirement (50% of uninsured public funds)			
	\$ 2,910,023	\$ 505,653	\$ 3,415,676
Pledged securities	<u>5,965,000</u>	<u>498,133</u>	<u>6,463,133</u>
Over (under) collateralization	<u>\$ 3,054,977</u>	<u>\$ (7,520)</u>	<u>\$ 3,047,457</u>
	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
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	<u>5,339,905</u>	<u>1,010,403</u>	<u>6,350,308</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name			
	<u>5,339,905</u>	<u>692,911</u>	<u>6,032,816</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 317,492</u>	<u>\$ 317,492</u>
Collateral requirement (50% of uninsured public funds)			
	\$ 2,669,953	\$ 505,202	\$ 3,175,155
Pledged securities	<u>5,543,598</u>	<u>692,911</u>	<u>6,236,509</u>
Over (under) collateralization	<u>\$ 2,873,645</u>	<u>\$ 187,709</u>	<u>\$ 3,061,354</u>

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to the Statement of Net Assets

	<u>2012</u>	<u>2011</u>
Deposits	\$ 7,331,350	\$ 6,850,308
Reconciling items	-	(618)
Carrying amount	<u>\$ 7,331,350</u>	<u>\$ 6,849,690</u>

The carrying amounts of deposits and investments shown above are included in the District's Statements of Net Assets as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,761,217	\$ 1,497,046
Investments	1,261,305	1,260,403
Non-current cash and investments		
Restricted by donor for cardiac and general care	5,051	5,045
Restricted for debt service	4,303,777	4,087,196
Total	<u>\$ 7,331,350</u>	<u>\$ 6,849,690</u>

NOTE 3. RESTRICTED NET ASSETS

Restricted net assets are expendable for the following purposes:

	<u>2012</u>	<u>2011</u>
General care	\$ 5,051	\$ 5,045
Debt Service	4,303,777	4,087,196
Total restricted net assets	<u>\$ 4,308,828</u>	<u>\$ 4,092,241</u>

NOTE 4. CONTINGENCIES

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 Auditors' Report. There are no amounts receivable and payable relating to final settlements as of June 30, 2012. 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, 2012.

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 \$5,907,479 and \$4,646,488 in 2012 and 2011 respectively and passed through to Artesia General Hospital the amounts of \$5,907,479 and \$4,646,729 in 2012 and 2011, respectively.

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

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 \$2,574,764 and \$2,961,600 in 2012 and 2011, 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 \$1,131,715 and \$1,090,841 at June 30, 2012 and 2011 respectively. Mill levy receivable consists of the following at June 30, 2012 and 2011:

	2012	2011
Mill levy receivable		
Ad valorem	\$ 37,047	\$ 61,220
Oil and gas	1,095,038	1,030,233
Less: allowance for uncollectible amounts	(370)	(612)
Total Mill levy receivable	\$ 1,131,715	\$ 1,090,841

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, 2012 and 2011 consisted of these amounts:

	2012	2011
Accounts Receivable and Accrued Interest		
Mill levy receivable, net of uncollectible amounts	\$ 1,131,715	\$ 1,090,841
Accrued interest receivable	83	281
Total accounts receivable and accrued interest	\$ 1,131,798	\$ 1,091,122
 Accounts Payable and Accrued Expenses		
Accounts payable to contractors and others	\$ 3,012	\$ 2,798
Accrued bond interest payable	270,237	297,643
Total accounts payable and accrued expenses	\$ 273,249	\$ 300,441

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

NOTE 7. CAPITAL ASSETS

Capital assets, additions, retirements, and balances for the year ended June 30, 2012 are as follows:

	Balance June 30, 2011	Additions	Disposals	Adjustments/ Transfers	Balance June 30, 2012
Non-depreciable assets:					
Land	\$ 60,052	\$ -	\$ -	\$ -	\$ 60,052
Art work	-	-	-	1,835	1,835
	<u>60,052</u>	<u>-</u>	<u>-</u>	<u>1,835</u>	<u>61,887</u>
Depreciable assets:					
Land improvements	1,248,867	-	-	-	1,248,867
Buildings and improvements	33,862,405	-	-	-	33,862,405
Equipment	10,018,014	-	-	(1,835)	10,016,179
	<u>45,129,286</u>	<u>-</u>	<u>-</u>	<u>(1,835)</u>	<u>45,127,451</u>
Accumulated depreciation					
Land improvements	(677,302)	(92,417)	-	-	(769,719)
Buildings and improvements	(9,775,954)	(1,335,673)	-	-	(11,111,627)
Equipment	(7,358,689)	(663,448)	-	-	(8,022,137)
	<u>(17,811,945)</u>	<u>(2,091,538)</u>	<u>-</u>	<u>-</u>	<u>(19,903,483)</u>
Net capital assets	<u>\$ 27,377,393</u>	<u>\$ (2,091,538)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,285,855</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$2,091,538 and \$2,138,442.

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

NOTE 7. CAPITAL ASSETS (continued)

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

	Balance June 30, 2010	Additions	Disposals	Adjustments/ Transfers	Balance June 30, 2011
Non-depreciable assets:					
Land	\$ 60,052	\$ -	\$ -	\$ -	\$ 60,052
	<u>60,052</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,052</u>
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
	<u>45,017,506</u>	<u>111,780</u>	<u>-</u>	<u>-</u>	<u>45,129,286</u>
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)
	<u>(15,673,503)</u>	<u>(2,138,442)</u>	<u>-</u>	<u>-</u>	<u>(17,811,945)</u>
Net capital assets	<u>\$ 29,404,055</u>	<u>\$ (2,026,662)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,377,393</u>

NOTE 8. LONG-TERM DEBT

A schedule of changes in the District's General Obligation Bonds for 2012 and 2011 follows:

	Balance June 30, 2011	Additions	Reductions/ Adjustments	Balance June 30, 2012	Amounts Due Within One Year
2005 GO Bond	\$ 13,670,000	\$ -	\$ 1,290,000	\$ 12,380,000	\$ 1,345,000
2006 GO Bond	5,400,000	-	500,000	4,900,000	525,000
2006 Premium	1,677	-	225	1,452	-
Total Long-Term Debt	<u>\$ 19,071,677</u>	<u>\$ -</u>	<u>\$ 1,790,225</u>	<u>\$ 17,281,452</u>	<u>\$ 1,870,000</u>
	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	<u>\$ 20,811,906</u>	<u>\$ -</u>	<u>\$ 1,740,229</u>	<u>\$ 19,071,677</u>	<u>\$ 1,790,000</u>

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

NOTE 8. LONG-TERM DEBT (continued)

Bonds outstanding at June 30, 2012, 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		Principal		Interest		Total
Ending June 30,						
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		1,570,000		233,638		1,803,638
2018-2020		5,105,000		311,700		5,416,700
Total	\$	<u>12,380,000</u>	\$	<u>2,011,626</u>	\$	<u>14,391,626</u>

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		Principal		Interest		Total
Ending June 30,						
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		625,000		87,175		712,175
2018-2020		2,025,000		115,619		2,140,619
Total	\$	<u>4,900,000</u>	\$	<u>775,722</u>	\$	<u>5,675,722</u>

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 was \$816 and \$111 in 2012 and 2011, respectively.

Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2012 and 2011

NOTE 10. SUBSEQUENT EVENTS

The District approved for the issuance of General Obligation Refunding Bonds, Series 2012 for the purpose of refunding and defeasing the Series 2005 Bonds. The Bonds are general obligation bonds to be issued in the total principal amount of \$8,680,000 and will be dated the Date of Delivery, which is expected to be on or about October 30, 2012.

The date to which events occurring after June 30, 2012, the date of the most recent Statement of Net Assets, have been evaluated for possible adjustment to the financial statements or disclosures is October 7, 2012 which is the date on which the financial statements were available to be 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 March 2012, GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, Effective Date: For financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. 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 March 2012, GASB Statement No. 66 *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2012, GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. 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 June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Effective Date: The provisions of Statement 68 are effective for financial statements for periods beginning after June 15, 2014. Earlier application is 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 of Collateral Pledged by Depository
for Public Funds
June 30, 2012

Schedule I

Name of Depository and Description of Pledged Collateral	Fair Market/Par Value June 30, 2012	Name and Location of Safekeeper
First American		
Socorro NM Cons SD #1 Due 8/1/2017, CUSIP #83368PBY1**	\$ 320,000	Federal Home Loan Bank Dallas, Texas
Lea Cnty NM Public Sch Due 1/15/2019, CUSIP #521513BT7**	260,000	Federal Home Loan Bank Dallas, Texas
Grants & Cibola Cntys NM Due 4/15/2020, CUSIP #388240FS7**	450,000	Federal Home Loan Bank Dallas, Texas
Albuquerque NM Muni Sch Due 8/1/2020, CUSIP #013595LK7**	900,000	Federal Home Loan Bank Dallas, Texas
Estancia NM Muni Sch Dist Due 6/15/2021, CUSIP #297326EF3**	165,000	Federal Home Loan Bank Dallas, Texas
Gallup McKinley NM SD Due 8/1/2021, CUSIP #364010NW4**	400,000	Federal Home Loan Bank Dallas, Texas
Texico NM Mun Sch Dist Due 8/1/2021, CUSIP #883005CH1**	85,000	Federal Home Loan Bank Dallas, Texas
Belen NM Cons Sch Dist Due 8/1/2022, CUSIP #077581NG7**	750,000	Federal Home Loan Bank Dallas, Texas
Clovis NM Muni SD #001 Due 8/1/2022, CUSIP #189414GQ2**	800,000	Federal Home Loan Bank Dallas, Texas
Clovis NM Muni SD #001 Due 8/1/2023, CUSIP #189414GR0**	775,000	Federal Home Loan Bank Dallas, Texas
Hobbs NM Sch Dist #16 Due 4/15/24, CUSIP #433866DR8**	760,000	Federal Home Loan Bank Dallas, Texas
Alamogordo NM Assuri Due 8/1/28, CUSIP #011446GB1**	300,000	Federal Home Loan Bank Dallas, Texas
	<u>\$ 5,965,000</u>	
Western Bank		
FHLMC Pool Due 5/1/2013, CUSIP #31335HAQ6	\$ 970	Federal Home Loan Bank Dallas, Texas
FHLMC Pool Due 5/1/2013, CUSIP #31335HAQ6	2,892	Federal Home Loan Bank Dallas, Texas
GNMA II Pool Due 6/20/2024, CUSIP #36202B5N1	39,400	Federal Home Loan Bank Dallas, Texas
FHLB Due 1/16/2032, CUSIP #38373YA38	204,871	Federal Home Loan Bank Dallas, Texas
Hobbs NM Due 4/15/2024, CUSIP #433866DR8**	250,000	Federal Home Loan Bank Dallas, Texas
	<u>\$ 498,133</u>	

** 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

See Independent Auditors' Report

Artesia Special Hospital District
 Schedule of Deposit and Investment Accounts
 June 30, 2012

Schedule II

<u>Deposit Type</u>	<u>First American Bank</u>	<u>Western Bank</u>	<u>Total</u>
Operational - NOW checking	\$ 452,186	\$ -	\$ 452,186
Regular - MMF Checking	1,309,031	-	1,309,031
Bond sinking fund - MMF checking	4,303,777	-	4,303,777
General needs - NOW checking	5,051	-	5,051
Certificate of deposit	-	1,261,305	1,261,305
Total on deposit	<u>6,070,045</u>	<u>1,261,305</u>	<u>7,331,350</u>
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	<u>-</u>	<u>-</u>	<u>-</u>
Total June 30, 2012	<u>\$ 6,070,045</u>	<u>\$ 1,261,305</u>	<u>\$ 7,331,350</u>

Reconciliation to the June 30, 2012

Statement of Net Assets

Unrestricted cash and cash equivalents	\$ 1,761,217
Investments	1,261,305
Cash restricted by donor for cardiac and general care	5,051
Cash restricted by bond indenture for debt service	<u>4,303,777</u>
	<u>\$ 7,331,350</u>

See Independent Auditors' Report

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Artesia Special Hospital District
Schedule of Revenues and Expenses with Budget
Comparison (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2012

Schedule III

	<u>Original Budget</u>	<u>Final Appropriated Budget</u>	<u>Non-GAAP Budgetary Actual</u>	<u>Variance with Final Budget</u>
Revenues:				
Mill levy taxes	\$ 4,090,000	\$ 5,907,747	\$ 5,907,479	\$ (268)
Less amounts passed through to: AGH	(4,090,000)	(5,907,747)	(5,907,479)	268
GO Bond mill levy	2,475,000	2,671,831	2,671,831	-
Lease income	378,000	378,000	378,000	-
Investment income	36,500	24,810	24,810	-
Other	340	359	359	-
Total revenues	<u>2,889,840</u>	<u>3,075,000</u>	<u>3,075,000</u>	<u>-</u>
Expenses				
Current:				
Miscellaneous	-	93	93	-
Professional fees	37,500	29,217	29,217	-
Advertising	-	57	57	-
Insurance	11,000	11,046	11,046	-
Indigent Care	100,000	81,471	81,471	-
Debt service:				
Principal payments	1,790,000	1,790,000	1,790,000	-
Interest	681,456	681,455	681,231	224
Total expenses	<u>2,619,956</u>	<u>2,593,339</u>	<u>2,593,115</u>	<u>224</u>
Excess (deficiency) of revenues over expenses	<u>269,884</u>	<u>481,661</u>	<u>481,885</u>	<u>224</u>
Change in net assets	<u>269,884</u>	<u>481,661</u>	<u>481,885</u>	<u>\$ 224</u>
Cash and investments required to balance budget	<u>(269,884)</u>	<u>(481,661)</u>		
	<u>\$ -</u>	<u>\$ -</u>		

**Reconciliation to
Statement of Revenues
and Expenses:**

Principal payments	1,790,000
Depreciation and amortization	(2,096,985)
Changes in payables	26,766
Changes in receivables and due to AGH	(97,265)
Increase in net assets	<u>\$ 104,401</u>

See Independent Auditors' 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, 2012 and 2011, 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, 2012. We also have audited Schedule III - Schedule of Revenues and Expenses with Budget Comparison presented as supplementary information for the year ended June 30, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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.

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 one instance of noncompliance or other matter that is

required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of financial statement findings and responses as item FS 12-01.

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, 2012

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Artesia Special Hospital District
Schedule of Financial Statement Findings and Responses
June 30, 2012

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

FS 12-01 Pledged Collateral – Other Matter

Condition: As of June 30, 2012, the District maintained deposits with Western Bank which were not adequately collateralized as required by State Statutes. As of June 30, 2012 the under collateralization at the bank totaled \$7,520.

Criteria: Any bank designated a depositor of public money shall deliver pledged collateral with a value equal to one half the amount of the public money in excess of insurance, to a custodial bank and a joint safekeeping receipt issued by the custodial bank to the District (Section 6-10-17 NMSA 1978). Monitoring collateralization of the District's funds is essential in ensuring compliance with State of New Mexico Statutes.

Effect: Lack of proper collateralization may result in non-compliance with state statutes and increase potential liability and exposure to the loss of the District's public funds in the event of a bank closure.

Cause: The District had not designated an individual to review monthly collateralization reports provided by the financial institution(s) with which the District maintained deposits. Monitoring collateralization of the District's funds is essential in ensuring compliance with State Statutes.

Auditors' Recommendations: As part of a formal policy implemented by the District, an individual should be assigned the responsibilities of reviewing the monthly collateral reports and ensuring proper and adequate collateral is pledged for its deposits.

Agency's Response: At the September 24, 2012 board meeting, the Chairman brought this to the attention of the board and specifically asked the Treasurer to review the monthly collateral reports to ensure proper and adequate collateral.

C. PRIOR YEAR AUDIT FINDINGS

No prior year audit findings

Artesia Special Hospital District
Other Disclosures
June 30, 2012

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 9, 2012. The following individuals were in attendance.

Artesia Special Hospital District
S. Gary Sims, Treasurer

Auditor
Ray Roberts, Partner