

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
ARTESIA SPECIAL HOSPITAL DISTRICT
FINANCIAL STATEMENTS
AS OF JUNE 30, 2013 AND 2012



STATE OF NEW MEXICO
ARTESIA SPECIAL HOSPITAL DISTRICT
FINANCIAL STATEMENTS
AS OF JUNE 30, 2013 AND 2012

(This page intentionally left blank)

INTRODUCTORY SECTION

(This page intentionally left blank)

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Table of Contents
 June 30, 2013

	<u>Page</u>
INTRODUCTORY SECTION	
Table of Contents	5
Official Roster	7
FINANCIAL SECTION	
Independent Auditors' Report	10-11
Management's Discussion and Analysis	13-16
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	18-19
Statements of Revenues, Expenses and Changes in Net Position	21
Statements of Cash Flows	22-23
NOTES TO THE FINANCIAL STATEMENTS	25-36
SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenses with Budget Comparison (Non-GAAP Budgetary Basis)	Schedule I 39
Schedule of Collateral Pledged by Depository for Public Funds	Schedule II 40
Schedule of Deposit and Investment Accounts	Schedule III 41
COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45
Schedule of Financial Statement Findings and Responses	47
OTHER DISCLOSURES	48

(This page intentionally left blank)

STATE OF NEW MEXICO
Artesia Special Hospital District
Official Roster
June 30, 2013

Board of Trustees

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

(This page intentionally left blank)

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector Balderas
New Mexico State Auditor
The Board of Trustees of
Artesia Special Hospital District
Artesia, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Artesia Special Hospital District (the "District"), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited Schedule I - Schedule of Revenues and Expenses with Budget Comparison (Non - GAAP Budgetary Basis) presented as supplementary information, as defined by the Government Accounting Standards Board for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Artesia Special Hospital District, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedule referred to above presents fairly, in all material respects, the budgetary basis of accounting as prescribed in the New Mexico Administrative Code, as more fully described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the District's basic financial statements and the budgetary comparison. The *Supporting Schedules II and III required by 2.2.2 NMAC* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Supporting Schedules II through III required by 2.2.2 NMAC* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *Supporting Schedules II through III required by 2.2.2 NMAC* 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2013 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* in considering the District's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
October 3, 2013

(This page intentionally left blank)

STATE OF NEW MEXICO
Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Artesia Special Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the District's financial statements.

Financial Highlights

- The District's change in unrestricted net position between 2013 and 2012 was \$329,518 or a 10.5% increase mainly due to operating revenues exceeding the operating expenses by \$221,331, 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 \$11,510,000 in 2013. Principal payments in the current year were significantly larger than normal due to the issuance of Series 2012, General Obligation Bonds of \$8,680,000 that were considered an Advanced Refunding issuance. The proceeds from the issuance as well as cash reserves were utilized to refund and defease the Series 2005, General Obligation Bonds.
- The District reported an operating loss of \$1,869,718 in 2013 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 \$221,331 in 2013. 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 2012-2013 resulting in an Operating mill levy tax revenue increase of \$273,962 or 4.5%.
- The 2013 General Obligation Bond mill levy was \$2,407,262 in 2013 and \$2,574,764 in 2012.
- There were no construction in progress expenditures during the years ended June 30, 2013 and 2012 respectively.

Using This Annual Report

The District's financial statements consist of three statements— Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; 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 Position and Statements of Revenues, Expenses, and Changes in Net Position

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 Position and the Statement of Revenues, Expenses, and Changes in Net Position 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.

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Management's Discussion and Analysis
 June 30, 2013

These two statements report the District's net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial standing. Over time, increases or decreases in the District's net position 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 Artesia General Hospital's tax 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 G.O. Mill Levy funds and taxes. 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 Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 4,209,817	\$ 4,158,583	\$ 3,853,260
Capital assets	23,253,445	25,285,855	27,377,393
Other non-current assets	3,542,089	4,381,525	4,170,385
Total assets	<u>\$ 31,005,351</u>	<u>\$ 33,825,963</u>	<u>\$ 35,401,038</u>
Liabilities:			
Long-term obligations outstanding	\$ 14,877,559	\$ 17,281,452	\$ 19,071,677
Other current and non-current liabilities	848,843	1,089,191	978,442
Total Liabilities	<u>15,726,402</u>	<u>18,370,643</u>	<u>20,050,119</u>
Net position:			
Net investment in capital assets	8,375,886	8,004,403	8,305,716
Restricted for general care	5,056	5,051	5,045
Restricted for debt service	3,426,400	4,303,777	4,087,196
Unrestricted	3,471,607	3,142,089	2,952,962
Total net position	<u>15,278,949</u>	<u>15,455,320</u>	<u>15,350,919</u>
Total liabilities and net position	<u>\$ 31,005,351</u>	<u>\$ 33,825,963</u>	<u>\$ 35,401,038</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 Position

The District's net position is the difference between its assets and liabilities reported in the Statements of Net Position. The District's net position decreased \$176,371 or 1.14% as you can see from Table 2 below.

STATE OF NEW MEXICO
Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2013

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Mill levy taxes	\$ 6,319,651	\$ 6,045,689	\$ 4,863,512
Less amounts passed through to: AGH	(6,319,651)	(6,045,689)	(4,863,512)
Lease income	378,000	378,000	378,000
Other	336	359	352
Total operating revenues	<u>378,336</u>	<u>378,359</u>	<u>378,352</u>
Operating expenses			
Miscellaneous	247	93	800
Professional fees	51,712	29,431	32,273
Advertising	201	57	-
Insurance	9,878	11,472	10,342
Indigent care	94,967	81,471	60,152
Depreciation and amortization	2,091,049	2,096,985	2,143,889
Total operating expenses	<u>2,248,054</u>	<u>2,219,509</u>	<u>2,247,456</u>
Operating income (loss)	<u>(1,869,718)</u>	<u>(1,841,150)</u>	<u>(1,869,104)</u>
Non-operating revenues and expenses			
G.O. bond mill levy	2,407,262	2,574,764	2,961,600
Investment income	24,818	24,612	37,329
Interest expense	(738,733)	(653,825)	(719,450)
Total non-operating revenues (expenses)	<u>1,693,347</u>	<u>1,945,551</u>	<u>2,279,479</u>
Change in net position	(176,371)	104,401	410,375
Net position beginning of year	<u>15,455,320</u>	<u>15,350,919</u>	<u>14,940,544</u>
Net position end of year	<u>\$ 15,278,949</u>	<u>\$ 15,455,320</u>	<u>\$ 15,350,919</u>

Operating Income (Loss)

Operating income (loss) consists of three main items. One, the mill levy funds (\$6,319,651 in 2013) 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 Artesia General Hospital. 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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Management's Discussion and Analysis
June 30, 2013

Grants, Contributions, and Endowments

The District did not receive any capital grant revenue from state agencies for the purchase of equipment in 2013.

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 2013, the District had \$23,193,393 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2013, the District did not make any capital asset additions purchases.

Debt

The District had \$12,887,559, net of current maturities of \$1,990,000, of General Obligation Bonds outstanding as outlined in Note 8 to the financial statements. Debt was incurred for renovations and new construction for AGH. In 2013, the District issued new bonds to refund and defease the Series 2005 Bonds maturing on and after August 1, 2013

Subsequent Events

Subsequent to year end the District approved the issuance of bonds to remodel, expand and improve the Artesia General Hospital. The Bonds are general obligation bonds to be issued by the District in the total principal amount of \$14,500,000 and will be dated on or about October 30, 2013.

Contacting the District Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
Artesia Special Hospital District
Statements of Net Position
June 30, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,986,918	\$ 1,761,217
Investments	1,262,032	1,261,305
Mill levy receivable, net (Note 5)	955,490	1,131,715
Accrued interest receivable	262	83
Prepaid expenses	5,115	4,263
Total current assets	<u>4,209,817</u>	<u>4,158,583</u>
Noncurrent cash and investments		
Cash restricted by donor for cardiac and general care	5,056	5,051
Cash restricted by bond indenture for debt service	3,426,400	4,303,777
Land	60,052	60,052
Depreciable capital assets, net of accumulated depreciation (Note 7)	23,193,393	25,225,803
Bond issuance costs net of accumulated amortization of \$94,890 in 2013 and \$36,251 in 2012	110,633	72,697
Total noncurrent assets	<u>26,795,534</u>	<u>29,667,380</u>
Total assets	<u>\$ 31,005,351</u>	<u>\$ 33,825,963</u>

The accompanying notes are an integral part of these financial statements

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current liabilities		
Accounts payable (Note 6)	\$ 2,654	\$ 3,012
Due to AGH	692,537	815,942
Accrued interest (Note 6)	153,652	270,237
Current portion of long-term debt	1,990,000	1,870,000
Total current liabilities	<u>2,838,843</u>	<u>2,959,191</u>
Long-term liabilities		
Long-term debt, net of current maturities (Note 8)	12,887,559	15,411,452
Total liabilities	<u>15,726,402</u>	<u>18,370,643</u>
Net position		
Net investment in capital assets	8,375,886	8,004,403
Restricted, expendable for:		
General care	5,056	5,051
Debt service	3,426,400	4,303,777
Unrestricted	3,471,607	3,142,089
Total net position	<u>15,278,949</u>	<u>15,455,320</u>
Total liabilities and net position	<u>\$ 31,005,351</u>	<u>\$ 33,825,963</u>

(This page intentionally left blank)

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Mill levy taxes		
Ad valorem taxes	\$ 1,820,963	\$ 1,738,649
Oil and gas taxes	4,498,688	4,307,040
Less amounts passed through to AGH	(6,319,651)	(6,045,689)
Lease income	378,000	378,000
Other	336	359
Total operating revenues	378,336	378,359
Operating expenses		
Miscellaneous	247	93
Advertising	201	57
Insurance	9,878	11,472
Professional fees	51,712	29,431
Indigent Care	94,967	81,471
Depreciation and amortization	2,091,049	2,096,985
Total operating expenses	2,248,054	2,219,509
Operating (loss)	(1,869,718)	(1,841,150)
Non-operating revenues (expenses):		
GO Bond mill levy	2,407,262	2,574,764
Investment income	24,818	24,612
Interest expense	(738,733)	(653,825)
Total non-operating revenues and expenses	1,693,347	1,945,551
Change in net position	(176,371)	104,401
Net position - beginning of the year	15,455,320	15,350,919
Net position - end of the year	\$ 15,278,949	\$ 15,455,320

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Artesia Special Hospital District
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<i>Cash flows from operating activities:</i>		
Receipts from customers and users	\$ 336	\$ 359
Receipts from leases	378,000	378,000
Payments to vendors	<u>(158,215)</u>	<u>(121,884)</u>
<i>Net cash provided by operating activities</i>	<u>220,121</u>	<u>256,475</u>
<i>Cash flows from non-capital financing activities:</i>		
Mill levy taxes	6,443,056	5,907,479
Pass through of mill levy taxes to AGH	<u>(6,443,056)</u>	<u>(5,907,479)</u>
Due to AGH/Dialysis		
<i>Net cash provided (used) by non-capital financing activities</i>	<u>-</u>	<u>-</u>
<i>Cash flows from capital and related financing activities:</i>		
GO Bond mill levy	2,460,082	2,671,831
Interest payments on long-term debt	(855,318)	(681,456)
Principal payments on long-term debt	(11,510,620)	(1,790,000)
Bond proceeds	9,106,727	-
Bond issuance costs	<u>(96,575)</u>	<u>-</u>
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(895,704)</u>	<u>200,375</u>
<i>Cash flows from investing activities:</i>		
Investment income	24,639	24,810
Purchase of investments	<u>(727)</u>	<u>(902)</u>
<i>Net cash provided by investing activities</i>	<u>23,912</u>	<u>23,908</u>
<i>Net increase (decrease) in cash</i>	<u>(651,671)</u>	<u>480,758</u>
<i>Cash and cash equivalents - beginning of year</i>	<u>6,070,045</u>	<u>5,589,287</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 5,418,374</u>	<u>\$ 6,070,045</u>
Unrestricted cash and cash equivalents	\$ 1,986,918	\$ 1,761,217
Restricted cash and cash equivalents		
Restricted by donor for cardiac and general care	5,056	5,051
Restricted for debt service	<u>3,426,400</u>	<u>4,303,777</u>
Total cash and cash equivalents	<u>\$ 5,418,374</u>	<u>\$ 6,070,045</u>

The accompanying notes are an integral part of these financial statements

	<u>2013</u>	<u>2012</u>
<i>Reconciliation of operating income (loss) to net cash provided by operating activities:</i>		
Operating loss	\$ (1,869,718)	\$ (1,841,150)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization	2,091,049	2,096,985
(Increase) Decrease in:		
Accounts payable	(358)	214
(Decrease) Increase in:		
Prepaid Insurance	<u>(852)</u>	<u>426</u>
Net cash provided by operating activities	<u>\$ 220,121</u>	<u>\$ 256,475</u>

(This page intentionally left blank)

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

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 49 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 with an option to renew for one additional 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.

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 provided in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

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

During the year ended June 30, 2013, the District adopted GASB Statements No. 60 through 63. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The District does not have any Service Concession Arrangements. GASB Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No 34, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

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 position. 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 net position. 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 2017 (See Note 5 for additional information regarding renewal). The District recorded \$6,319,651 in 2013 and \$6,045,689 in 2012 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 \$2,407,262 in 2013 and \$2,574,764 in 2012 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.

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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

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

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 Position – Net position of the District is classified in three components. *Net investment in capital assets* 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 position* is noncapital net positions 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 position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Statement of Net Positions reports \$3,431,456 of restricted net position, all of which is restricted by enabling legislation.

Operating Revenues and Expenses – The District’s Statements of Revenues, Expenses and Changes in Net Positions 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 position for the prior year is 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, 2013 and 2012, the District was not aware of any non-compliance with these requirements.

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 effective interest method required by GAAP. 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.

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2013 and 2012

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

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, 2013 financial statement presentation. Additionally, certain terminology has been changed to conform to newly implemented pronouncements taking place during the fiscal year.

Stewardship, Compliance and Accountability

Budgetary Information – Annual budgets of the County are prepared prior to June 1 and must be approved by resolution of the Board of Trustees, and submitted to the Department of Finance and Administration for State approval. Once the budget has been formally approved, any amendments must also be approved by the Board of Trustees and the Department of Finance and Administration. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total at the fund level.

These budgets are prepared on the Non-GAAP cash budgetary basis. Budgetary basis expenditures exclude encumbrances. The budget secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been properly amended by Board of Trustees in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Business-Type Activities	\$ (61,574)	\$ (650,943)

The accompanying Schedule of Revenues and Expenses with Budget Comparison (Non-GAAP Budgetary Basis) presents a comparison of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2013 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on the budgetary statement.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 2. DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the District properly followed State investment requirements as of June 30, 2013.

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

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.

By operation of federal law, beginning January 1, 2013, funds deposited in a non-interest bearing transaction account (including an Interest on Lawyer Trust Account) no longer will receive unlimited deposit insurance coverage by the FDIC. Beginning January 1, 2013, all of the District's accounts at an insured depository institution, including all non-interest bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of (\$250,000).

Custodial Credit Risk – Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits and investments may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2013 \$6,180,406 of the District's bank balance of \$6,680,406 was exposed to custodial credit risk. Although the \$6,180,406 was uninsured, \$5,948,646 was collateralized by collateral held by the pledging bank's trust department, not in the District's name. \$231,760 of the District's deposits were uninsured and uncollateralized at June 30, 2013. At June 30, 2012 \$6,831,350 of the District's bank balance of \$7,331,350 was exposed to custodial credit risk. Although the \$6,831,350 was uninsured, \$6,318,178 was collateralized by collateral held by the pledging bank's trust department, not in the District's name. \$513,172 of the District's deposits were uninsured and uncollateralized at June 30, 2013.

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states that types of collateral allowed is 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. All depositories had collateral exceeding the amount by law.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
Year ended June 30, 2013			
Total amount of deposits	\$ 5,418,374	\$ 1,262,032	\$ 6,680,406
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	<u>5,168,374</u>	<u>1,012,032</u>	<u>6,180,406</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name			
	5,168,374	780,272	5,948,646
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 231,760</u>	<u>\$ 231,760</u>
Collateral requirement (50% of uninsured public funds)			
	\$ 2,584,187	\$ 506,016	\$ 3,090,203
Pledged securities	5,965,000	780,272	6,793,586
Over (under) collateralization	<u>\$ 3,380,813</u>	<u>\$ 274,256</u>	<u>\$ 3,703,383</u>
	<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			
	5,820,045	498,133	6,318,178
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	5,965,000	498,133	6,463,133
Over (under) collateralization	<u>\$ 3,054,977</u>	<u>\$ (7,520)</u>	<u>\$ 3,047,457</u>

Reconciliation to the Statement of Net Position

	<u>2013</u>	<u>2012</u>
Deposits	\$ 6,680,406	\$ 7,331,350
Reconciling items	-	-
Carrying amount	<u>\$ 6,680,406</u>	<u>\$ 7,331,350</u>

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

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

	2013	2012
Cash and cash equivalents	\$ 1,986,918	\$ 1,761,217
Investments	1,262,032	1,261,305
Non-current cash and investments		
Restricted by donor for cardiac and general care	5,056	5,051
Restricted for debt service	3,426,400	4,303,777
Total	\$ 6,680,406	\$ 7,331,350

NOTE 3. RESTRICTED NET POSITION

Restricted net position is expendable for the following purposes:

	2013	2012
General care	\$ 5,056	\$ 5,051
Debt Service	3,426,400	4,303,777
Total restricted net position	\$ 3,431,456	\$ 4,308,828

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, 2013. 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, 2013.

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.

The District received cash operating mill levy proceeds of \$6,443,056 and \$5,907,479 in 2013 and 2012 respectively and passed through to Artesia General Hospital the amounts of \$6,443,056 and \$5,907,479 in 2013 and 2012, respectively.

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 was recently renewed for tax years 2014 to 2017.

The District recorded General Obligation Bond mill levy revenues of \$2,407,262 and \$2,574,764 in 2013 and 2012, respectively. This mill levy was passed by the voters in November 2004, August 2006 and August 2013. Bonds are scheduled to be paid off August 2019.

The total Mill levy receivable was \$955,490 and \$1,131,715 at June 30, 2013 and 2012 respectively. Mill levy receivable consists of the following at June 30, 2013 and 2012:

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 5. MILL LEVY TAXES RECEIVABLE (continued)

	<u>2013</u>	<u>2012</u>
Mill levy receivable		
Ad valorem	\$ 31,873	\$ 37,047
Oil and gas	923,936	1,095,038
Less: allowance for uncollectible amounts	(319)	(370)
Total Mill levy receivable	<u>\$ 955,490</u>	<u>\$ 1,131,715</u>

NOTE 6. ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at June 30, 2013 and 2012 consisted of these amounts:

	<u>2013</u>	<u>2012</u>
Accounts Receivable and Accrued Interest		
Mill levy receivable, net of uncollectible amounts	\$ 955,490	\$ 1,131,715
Accrued interest receivable	262	83
Total accounts receivable and accrued interest	<u>\$ 955,752</u>	<u>\$ 1,131,798</u>
Accounts Payable and Accrued Expenses		
Accounts payable to contractors and others	\$ 2,654	\$ 3,012
Accrued bond interest payable	153,652	270,237
Total accounts payable and accrued expenses	<u>\$ 156,306</u>	<u>\$ 273,249</u>

NOTE 7. CAPITAL ASSETS

Capital assets, additions, retirements, and balances for the year ended June 30, 2013 are as follows:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments/ Transfers</u>	<u>Balance June 30, 2013</u>
Non-depreciable assets:					
Land	\$ 60,052	\$ -	\$ -	\$ -	\$ 60,052
Art work	1,835	-	-	-	1,835
	<u>61,887</u>	<u>-</u>	<u>-</u>	<u>-</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	10,016,179	-	-	-	10,016,179
	<u>45,127,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,127,451</u>
Accumulated depreciation					
Land improvements	(769,719)	(89,571)	-	-	(859,290)
Buildings and improvements	(11,111,627)	(1,303,099)	-	-	(12,414,726)
Equipment	(8,022,137)	(639,740)	-	-	(8,661,877)
	<u>(19,903,483)</u>	<u>(2,032,410)</u>	<u>-</u>	<u>-</u>	<u>(21,935,893)</u>
Net capital assets	<u>\$ 25,285,855</u>	<u>\$ (2,032,410)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,253,445</u>

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2013 and 2012

NOTE 7. CAPITAL ASSETS (continued)

Depreciation expense for the years ended June 30, 2013 and 2012 was \$2,032,410 and \$2,091,538.

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>

NOTE 8. LONG-TERM DEBT

A schedule of changes in the District's General Obligation Bonds for 2013 and 2012 follows:

	Balance June 30, 2012	Additions	Reductions/ Adjustments	Balance June 30, 2013	Amounts Due Within One Year
2005 GO Bond	\$ 12,380,000	\$ -	\$ 10,985,000	\$ 1,395,000	\$ 1,395,000
2006 GO Bond	4,900,000	-	525,000	4,375,000	550,000
2006 Premium	1,452	-	220	1,232	-
2012 GO Bond	-	8,680,000	-	8,680,000	45,000
2012 Premium	-	426,727	400	426,327	-
Total Long-Term Debt	<u>\$ 17,281,452</u>	<u>\$ 9,106,727</u>	<u>\$ 11,510,620</u>	<u>\$ 14,877,559</u>	<u>\$ 1,990,000</u>

	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>

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2013 and 2012

NOTE 8. LONG-TERM DEBT (continued)

Bonds outstanding at June 30, 2013, 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
2014	\$	1,395,000	\$ 24,413	\$ 1,419,413
Total	\$	<u>1,395,000</u>	<u>\$ 24,413</u>	<u>\$ 1,419,413</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				
Ending June 30,		Principal	Interest	Total
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		650,000	63,588	713,588
2019-2023		1,375,000	52,031	1,427,031
Total	\$	<u>4,375,000</u>	<u>\$ 599,256</u>	<u>\$ 4,974,256</u>

General Obligation Bonds Series : 2012
 Original Issue : \$8,680,000
 Principal : August 1
 Interest : February 1 and August 1
 Rates : 2.00% - 4.00%
 Purpose: To refund and defease the General Obligation Bonds, Series 2005 on August 1, 2013.

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2013 and 2012

NOTE 8. LONG-TERM DEBT (continued)

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

Fiscal Year		Principal		Interest		Total
Ending June 30,						
2014	\$	45,000	\$	227,600	\$	272,600
2015		1,320,000		200,750		1,520,750
2016		1,380,000		153,650		1,533,650
2017		1,425,000		111,575		1,536,575
2018		1,475,000		75,450		1,550,450
2019-2023		3,035,000		61,050		3,096,050
Total	\$	<u>8,680,000</u>	\$	<u>830,075</u>	\$	<u>9,510,075</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.

Advance Refunding – The District issued General Obligation bonds, Series 2012 on September 25, 2012 for \$8,680,000. These bonds were used along with cash reserves to refund the District’s outstanding General Obligation Bonds, Series 2005, maturing the year 2013 in the aggregate principal amounts of \$1,345,000, and maturing in the years 2014 through 2020, inclusive, in the aggregate principal amount of \$9,640,000, in order to lower the overall annual debt service requirements of the District, and to pay the costs of issuance of the Bonds. As a result, the refunded bonds are considered defeased in the amount of \$9,640,000. The liability in this amount has been removed from the District’s Statement of Net Position, leaving the remaining balance on bonds payable of \$1,395,000 that is due and payable on August 1, 2013 from the District’s cash reserves.

NOTE 9. 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.

NOTE 10. 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 \$500 and \$816 in 2013 and 2012, respectively.

NOTE 11. OTHER REQUIRED DISCLOSURES

Excess of expenditures over appropriations – The District had expenditures in excess of approved budgetary appropriations for the year ended June 30, 2013 of \$8,937,286.

NOTE 12. CONCENTRATIONS

A significant portion of the revenues of the District are received from Mill Levy tax distributions from Eddy County, New Mexico. Receipt of these funds is contingent upon voter approval. In August 2013, the special assessment was extended through tax year 2014.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2013 and 2012

NOTE 13. SUBSEQUENT EVENTS

The District approved the issuance of General Obligation Bonds, Series 2013. Proceeds from the issuance will be used to remodel, expand and improve Artesia General Hospital. The Bonds are general obligation bonds to be issued in the total principal amount of \$14,500,000 and will be dated the Date of Delivery, which is to be October 30, 2013.

The date to which events occurring after June 30, 2013, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures is October 3, 2013 which is the date on which the financial statements were available to be issued.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS

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 District will implement this standard during fiscal year June 30, 2014.

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 provisions of this Statement generally are required to be applied retroactively for all period presented. The District will implement this standard during fiscal year June 30, 2014.

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.

In January 2013, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, Effective Date: The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The standards is expected to have no effect on the District in upcoming years.

In April 2013, GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, Effective Date: The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The District is still evaluating how this reporting standard will affect the reporting entity.

SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Schedule of Revenues and Expenses with Budget
 Comparison (Non-GAAP Budgetary Basis)
 For the Year Ended June 30, 2013

Schedule I

	Original Budget	Final Appropriated Budget	Non-GAAP Budgetary Actual	Variance with Final Budget
Revenues:				
Mill levy taxes	\$ 5,300,000	\$ 6,443,056	\$ 6,443,056	\$ -
Less amounts passed through to: AGH	(5,300,000)	(6,443,056)	(6,443,056)	-
GO Bond mill levy	2,150,000	2,460,081	2,460,082	1
Lease income	378,000	378,000	378,000	-
Investment income	23,300	15,462	24,639	9,177
Other	310	336	336	-
Total revenues	2,551,610	2,853,879	2,863,057	9,178
Expenses				
Current:				
Miscellaneous	-	247	247	-
Professional fees	36,000	52,070	52,070	-
Advertising	-	197	201	(4)
Insurance	11,300	10,730	10,730	-
Indigent Care	80,000	94,967	94,967	-
Debt service:				
Principal payments	1,870,000	2,938,874	11,510,000	(8,571,126)
Interest	615,884	489,162	855,318	(366,156)
Bond issuance costs	-	96,575	96,575	-
Total expenses	2,613,184	3,682,822	12,620,108	(8,937,286)
Excess (deficiency) of revenues over expenses	(61,574)	(828,943)	(9,757,051)	(8,928,108)
Other financing sources and (uses):				
GO Bond proceeds	-	-	8,680,000	8,680,000
Premium on bonds payable	-	178,000	426,727	248,727
Total other financing sources and (uses):	-	178,000	9,106,727	8,928,727
Change in net position	(61,574)	(650,943)	\$ (650,324)	\$ 619
Cash and investments required to balance budget	61,574	650,943		
	\$ -	\$ -		

Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:

Principal payments	\$ 11,510,000
Depreciation and amortization	(2,091,049)
GO Bond Proceeds	(8,680,000)
Premium on bonds payable	(426,727)
Bond issuance costs	96,575
Changes in payables	117,795
Changes in receivables and due to AGH	(52,641)
Decrease in net position	\$ (176,371)

See Independent Auditors' Report

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Schedule of Collateral Pledged by Depository
 for Public Funds
 June 30, 2013

Schedule II

Name of Depository and Description of Pledged Collateral	Fair Market/Par Value June 30, 2013	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		
GNMA II Pool Due 6/20/2024, CUSIP #36202B5N1	\$ 28,597	Federal Home Loan Bank Dallas, Texas
FHLB Due 1/16/2032, CUSIP #383738A38	45,134	Federal Home Loan Bank Dallas, Texas
Hobbs, NM Due 4/15/2024, CUSIP #433866DR8**	250,000	Federal Home Loan Bank Dallas, Texas
Albuquerque, NM Due 8/1/2017, CUSIP #031595Q10**	250,000	Federal Home Loan Bank Dallas, Texas
GNMA Due 9/20/2034, CUSIP #38376X3E1	206,541	Federal Home Loan Bank Dallas, Texas
	<u>\$ 780,272</u>	

** As per NMAC 2.2.2.10(N)(4)(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

STATE OF NEW MEXICO
Artesia Special Hospital District
Schedule of Deposit and Investment Accounts
June 30, 2013

Schedule III

<u>Deposit Type</u>	<u>First American Bank</u>	<u>Western Bank</u>	<u>Total</u>
Operational - NOW checking	\$ 673,453	\$ -	\$ 673,453
Regular - MMF Checking	1,313,465	-	1,313,465
Bond sinking fund - MMF checking	3,426,400	-	3,426,400
General needs - NOW checking	5,056	-	5,056
Certificate of deposit	-	1,262,032	1,262,032
Total on deposit	<u>5,418,374</u>	<u>1,262,032</u>	<u>6,680,406</u>
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	<u>-</u>	<u>-</u>	<u>-</u>
Total June 30, 2013	<u>\$ 5,418,374</u>	<u>\$ 1,262,032</u>	<u>\$ 6,680,406</u>

Reconciliation to the June 30, 2013

Statement of Net Position

Unrestricted cash and cash equivalents	\$ 1,986,918
Investments	1,262,032
Cash restricted by donor for cardiac and general care	5,056
Cash restricted by bond indenture for debt service	<u>3,426,400</u>
	<u>\$ 6,680,406</u>

See Independent Auditors' Report

(This page intentionally left blank)

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 Balderas
New Mexico State Auditor
The Board of Trustees of
Artesia Special Hospital District
Artesia, New Mexico

We have audited, 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, the financial statements of the business-type activities of the Artesia Special Hospital District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the budgetary comparison of the District, presented as supplemental information, and have issued our report thereon dated October 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 weakness of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 an 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 2013-001.

District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of financial statement findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
October 3, 2013

(This page intentionally left blank)

STATE OF NEW MEXICO
Artesia Special Hospital District
Schedule of Financial Statement Findings and Responses
June 30, 2013

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 13-01 Actual Expenditures Exceed Budgeted Expenditures – Other Matter

Condition: The District had expenditures that exceeded the respective budget as of June 30, 2013 by \$8,937,286

Criteria: Section 6-6-6 of the New Mexico State Statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits any payments in excess of the approved budget. District officials and governing authorities have the obligation to follow state statutes.

Effect: Noncompliance with New Mexico State Statutes could subject officials and employees to penalties and fines required by state statutes.

Cause: The District budgeted based on the net change in cash balances during the fiscal year, not taking into account the separate revenue and expenditures resulting from the refunding bond issuance.

Auditors' Recommendation: We recommend that the District increase monitoring of its budget to actual comparisons and use budget adjustments to avoid having expenditures exceed the budget.

Agency's Response: In October 2012, the District refinanced all but \$1,395,000 its then outstanding 2005 G.O. Bonds with the issuance of \$8,680,000 of 1012 G.O. Bonds. The 2005 G.O. Bonds were defeased. This defeasment did not result in an actual expenditure by the District. The District did not consider the defeasment and refinance issuance of 2012 G.O. Bonds as budgetary items as there was no net change in the District's cash position. This can be observed from Schedule I on page 39 of the Auditor's Report which reflects a Variance with Final Budget Change in net position of \$619. The District has and will continue to closely monitor its budget to actual comparisons and will use budget adjustments for any refinance of G.O. Bonds in the future should such occur.

C. PRIOR YEAR AUDIT FINDINGS

FS 12-01 Pledged Collateral – Other Matter, Resolved

STATE OF NEW MEXICO
Artesia Special Hospital District
Other Disclosures
June 30, 2013

AUDITOR PREPARED FINANCIAL STATEMENTS

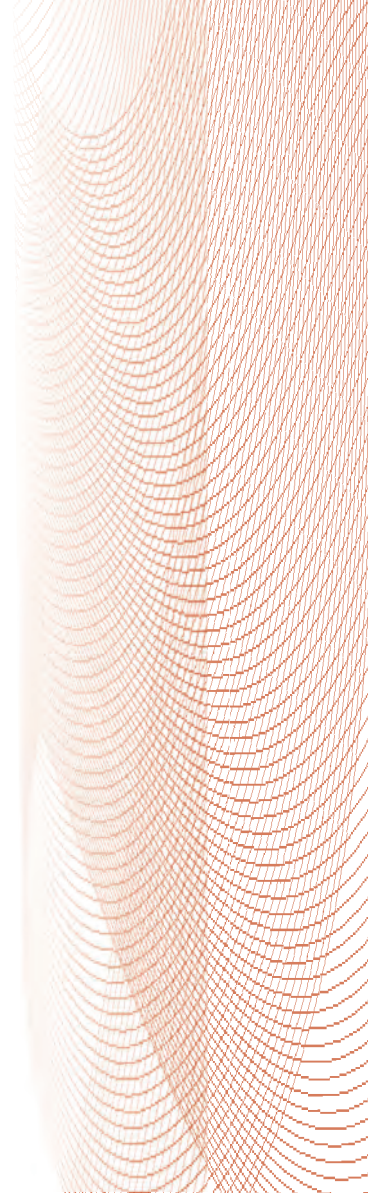
Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes Artesia Special Hospital District from the original books and records provided to them by the management of the District. The responsibility for the financial statements remains with the District.

EXIT CONFERENCE

The contents of this report were discussed on October 15, 2013. The following individuals were in attendance.

Artesia Special Hospital District
Dennis Maupin, Chairman
Gary Sims, Treasurer

Auditor
Ray Roberts, Partner



www.acgnm.com