



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

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***State of New Mexico***

***Artesia Special Hospital District***

***Financial Statements***

***As of June 30, 2014 and 2013***

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## **INTRODUCTORY SECTION**

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**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Table of Contents  
 June 30, 2014

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTORY SECTION</b>		
Table of Contents		5
Official Roster		6
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report		8-9
<b>BASIC FINANCIAL STATEMENTS</b>		
Government-wide Financial Statements:		
Statements of Net Position	A-1	12-13
Statement of Activities	A-2	15
Fund Financial Statements:		
Balance Sheet- Governmental Funds	B-1	16
Reconciliation of the Balance Sheet to the Statement of Net Position		17
Statement of Revenues, Expenditures, and Changes in Fund Balances- Government Funds	B-2	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities		19
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Budgetary Basis) and Actual:		
General Fund	C-1	20
Special Revenue Fund	C-2	21
 NOTES TO THE FINANCIAL STATEMENTS		 22-35
<b>SUPPLEMENTARY INFORMATION</b>		
Statement of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual		
Capital Projects Fund	Statement I	38
Debt Service Fund	Statement II	39
<b>SUPPORTING INFORMATION</b>		
Schedule of Collateral Pledged by Depository for Public Funds		
	Schedule I	42-43
Schedule of Deposit Accounts	Schedule II	44
<b>COMPLIANCE SECTION</b>		
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>		
		46-47
Schedule of Financial Statement Findings and Responses		48
<b>OTHER DISCLOSURES</b>		49

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Official Roster  
June 30, 2014

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

**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 governmental activities, each major fund and the budgetary comparisons for the general fund and major special revenue fund of Artesia Special Hospital District (the "District"), as of and for the year ended June 30, 2014, 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 the budgetary comparisons for the major capital projects fund and major debt service fund presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2014, 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 entity'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 entity'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 opinion.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Artesia Special Hospital District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparisons referred to above present fairly, in all material respects, the respective budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Emphasis of Matter**

As discussed in Note 1 and Note 12, the presentation of the financial statements of the District have significantly changed. This change is a result of the operations of the district conforming to a governmental funds presentation (previously a proprietary fund presentation) as required by accounting principles generally accepted in the United States of America. The District presents government-wide financial statements, as well as fund financial statement presentations, and the changes of accounting policies are outlined in Note 1. The reconciliation of beginning equity on the various bases of accounting has been presented in Note 12. Overall equity of the District has not changed from the amounts presented in the fiscal year end 2013 financial statements. Our opinion is not modified with respect to this matter.

Comparative Statements of Net Position have been presented, along with disclosure, as requested by management. We audited the Statement of Net Position as of June 30, 2013, and expressed an unmodified opinion with respect to that financial statement, in our report dated October 3, 2013.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the additional schedules listed as schedules I and II in the table of contents are required by 2.2.2 NMAC and are presented for purposes of additional analysis. They are not a required part of the basic financial statements.

The additional schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 or to 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, the additional schedules are fairly stated, in all material respects, in relation to the basic financial statements 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 9, 2014 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 9, 2014

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**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**Artesia Special Hospital District**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 13,343,349	\$ 1,986,918
Investments	1,263,241	1,262,032
Mill levy receivable, net (Note 4)	1,180,463	955,490
Accrued interest receivable	266	262
Prepaid expenses	5,160	5,115
<b>Total current assets</b>	<b>15,792,479</b>	<b>4,209,817</b>
<b>Noncurrent cash and investments</b>		
Cash restricted by donor for cardiac and general care	5,061	5,056
Cash restricted by bond indenture for debt service	4,737,241	3,426,400
Land	346,052	60,052
Capital assets, net of accumulated depreciation (Note 6)	24,266,887	23,193,393
Bond issuance costs net of accumulated amortization of \$94,890 in 2013	-	110,633
<b>Total noncurrent assets</b>	<b>29,355,241</b>	<b>26,795,534</b>
<b>Total assets</b>	<b>\$ 45,147,720</b>	<b>\$ 31,005,351</b>

The accompanying notes are an integral part of these financial statements

**Liabilities and Net Position**

	<u>2014</u>	<u>2013</u>
<b>Current liabilities</b>		
Accounts payable	\$ 16,821	\$ 2,654
Due to Artesia General Hospital	770,365	692,537
Accrued interest	375,745	153,652
Current portion of long-term debt	<u>3,205,000</u>	<u>1,990,000</u>
<b>Total current liabilities</b>	<u>4,367,931</u>	<u>2,838,843</u>
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities	<u>24,796,832</u>	<u>12,887,559</u>
<b>Total long-term liabilities</b>	<u>24,796,832</u>	<u>12,887,559</u>
<b>Total liabilities</b>	<u>29,164,763</u>	<u>15,726,402</u>
<b>Net position</b>		
Net investment in capital assets	7,726,123	8,375,886
Restricted, expendable for:		
Cardiac and general care	5,061	5,056
Debt service	3,480,666	3,426,400
Unrestricted	<u>4,771,107</u>	<u>3,471,607</u>
<b>Total net position</b>	<u>15,982,957</u>	<u>15,278,949</u>
<b>Total liabilities and net position</b>	<u>\$ 45,147,720</u>	<u>\$ 31,005,351</u>

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**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Statement of Activities  
 For the year ended June 30, 2014

Exhibit A-2

	<u>Governmental Activities</u>
<b>Program Expenses</b>	
General government	\$ 8,781,254
Interest	<u>702,155</u>
Total program expenses	<u>9,483,409</u>
<b>Charges for services</b>	
Lease income	<u>392,120</u>
Total operating income	<u>392,120</u>
Net (expense) revenue - general government	<u>(9,091,289)</u>
<b>General Revenues</b>	
Mill levy tax	9,884,080
Interest income	21,611
Miscellaneous revenues	<u>239</u>
Total general revenues	<u>9,905,930</u>
Change in net position	814,641
Total net position - beginning of year	15,278,949
Restatement pursuant to adoption of GASB 65 - Note 1	<u>(110,633)</u>
Beginning net position, as restated	<u>15,168,316</u>
Total net position - end of year	<u><u>\$ 15,982,957</u></u>

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Balance Sheet  
 Governmental Funds  
 June 30, 2014

Exhibit B-1

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<i>Assets</i>					
Cash and cash equivalents	\$ 2,233,394	\$ -	\$ 11,115,016	\$ 4,737,241	\$ 18,085,651
Investments	1,263,241	-	-	-	1,263,241
Receivables					
Mill levy, net of allowance	-	770,365	-	410,098	1,180,463
Interest	266	-	-	-	266
Prepaid expenses	5,160	-	-	-	5,160
<i>Total assets</i>	<u>\$ 3,502,061</u>	<u>\$ 770,365</u>	<u>\$ 11,115,016</u>	<u>\$ 5,147,339</u>	<u>\$ 20,534,781</u>
<i>Liabilities</i>					
Accounts payable	\$ 16,821	\$ -	\$ -	\$ -	\$ 16,821
Due to Artesia General Hospital	-	770,365	-	-	770,365
<i>Total liabilities</i>	<u>16,821</u>	<u>770,365</u>	<u>-</u>	<u>-</u>	<u>787,186</u>
<i>Deferred inflows of resources</i>					
Unavailable revenue - levied taxes	-	29,585	-	15,742	45,327
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>29,585</u>	<u>-</u>	<u>15,742</u>	<u>45,327</u>
<i>Fund balances</i>					
<i>Nonspendable</i>	5,160	-	-	-	5,160
<i>Spendable:</i>					
Restricted for:					
Debt service	-	-	-	5,131,597	5,131,597
Capital projects	-	-	11,115,016	-	11,115,016
General care	5,061	-	-	-	5,061
Unassigned	3,475,019	(29,585)	-	-	3,445,434
<i>Total fund balances</i>	<u>3,485,240</u>	<u>(29,585)</u>	<u>11,115,016</u>	<u>5,131,597</u>	<u>19,702,268</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 3,502,061</u>	<u>\$ 770,365</u>	<u>\$ 11,115,016</u>	<u>\$ 5,147,339</u>	<u>\$ 20,534,781</u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position  
June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances - total governmental funds	\$ 19,702,268
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	24,612,939
Certain tax collections are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	45,327
Accrued interest is not due and payable with current financial resources therefore are not reported in the funds	(375,745)
Some liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	<u>(28,001,832)</u>
Total net position	<u><u>\$ 15,982,957</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2014

Exhibit B-2

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<i>Revenues</i>					
Mill levy	\$ -	\$ 6,573,567	\$ -	\$ 3,265,186	\$ 9,838,753
Lease income	392,120	-	-	-	392,120
Interest	6,491	-	10,906	4,214	21,611
Miscellaneous	239	-	-	-	239
<i>Total revenues</i>	<u>398,850</u>	<u>6,573,567</u>	<u>10,906</u>	<u>3,269,400</u>	<u>10,252,723</u>
<i>Expenditures</i>					
<i>Current</i>					
General government	134,063	6,603,152	-	-	6,737,215
Capital outlay	25,000	-	3,299,589	-	3,324,589
<i>Debt service</i>					
Principal	-	-	-	1,990,000	1,990,000
Interest	-	-	-	725,243	725,243
Bond issuance costs	-	-	102,845	-	102,845
<i>Total expenditures</i>	<u>159,063</u>	<u>6,603,152</u>	<u>3,402,434</u>	<u>2,715,243</u>	<u>12,879,892</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>239,787</u>	<u>(29,585)</u>	<u>(3,391,528)</u>	<u>554,157</u>	<u>(2,627,169)</u>
<i>Other financing sources (uses)</i>					
Bond proceeds	-	-	14,500,000	-	14,500,000
Bond premiums	-	-	698,986	-	698,986
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>15,198,986</u>	<u>-</u>	<u>15,198,986</u>
<i>Net change in fund balances</i>	239,787	(29,585)	11,807,458	554,157	12,571,817
<i>Fund balances - beginning</i>	<u>3,245,453</u>	<u>-</u>	<u>(692,442)</u>	<u>4,577,440</u>	<u>7,130,451</u>
<i>Fund balances - ending</i>	<u>\$ 3,485,240</u>	<u>\$ (29,585)</u>	<u>\$ 11,115,016</u>	<u>\$ 5,131,597</u>	<u>\$ 19,702,268</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the year ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 12,571,817
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital assets reported as capital outlay expenditures	3,324,589
Depreciation of assets	(1,941,194)
Amortization of assets	(23,901)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>	
Change in unavailable revenue related to taxes receivable	45,327
<p>The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:</p>	
Bond proceeds	(14,500,000)
Bond premiums capitalized	(698,986)
Increase in accrued interest	(37,724)
Amortization of bond premiums	84,713
Principal payments on bonds	1,990,000
Change in net position of governmental activities	\$ 814,641

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 General Fund

Exhibit C-1

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Lease income	\$ 378,000	\$ 392,120	\$ 392,120	\$ -
Interest income	7,000	6,487	6,491	4
Miscellaneous	340	239	239	-
<i>Total revenues</i>	<u>385,340</u>	<u>398,846</u>	<u>398,850</u>	<u>4</u>
 <i>Expenditures</i>				
General government	131,215	148,044	134,063	13,981
Capital outlay	-	25,000	25,000	-
<i>Total expenditures</i>	<u>131,215</u>	<u>173,044</u>	<u>159,063</u>	<u>13,981</u>
 <i>Net change in fund balances</i>	 254,125	 225,802	 239,787	 13,985
 <i>Fund balances - beginning of year</i>	 <u>3,245,453</u>	 <u>3,245,453</u>	 <u>3,245,453</u>	 <u>-</u>
 <i>Fund balances - end of year</i>	 <u>\$ 3,499,578</u>	 <u>\$ 3,471,255</u>	 <u>\$ 3,485,240</u>	 <u>\$ 13,985</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**Artesia Special Hospital District**  
**Special Revenue Fund**

Exhibit C-2

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ 5,925,000	\$ 6,525,323	\$ 6,525,323	\$ -
Interest income	-	-	-	-
<i>Total revenues</i>	<u>5,925,000</u>	<u>6,525,323</u>	<u>6,525,323</u>	<u>-</u>
<i>Expenditures</i>				
General government	5,925,000	6,525,323	6,525,323	-
<i>Total expenditures</i>	<u>5,925,000</u>	<u>6,525,323</u>	<u>6,525,323</u>	<u>-</u>
<i>Net change in fund balances</i>	-	-	-	-
<i>Fund balances - beginning of year</i>	-	-	-	-
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
			Net change in fund balances (Non-GAAP)	\$ -
			Revenue recognition difference for taxes for unavailable revenue	<u>(29,585)</u>
			Net change in fund balances (GAAP)	<u>\$ (29,585)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Notes to the Financial Statements  
June 30, 2014

**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.

During the year ended June 30, 2014, the District adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of implementing GASB 65, the District has restated prior period equity in the government-wide statements in the amount of \$110,633 (a reduction) for the change in accounting treatment of bond issuance costs. This change has not been reflected in the prior year comparison column as this pronouncement was not effective until fiscal year 2014. In addition, the District has included amounts not considered available for derived tax revenues in the Balance Sheet as deferred inflows in the amount of \$45,327.

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Notes to the Financial Statements  
June 30, 2014

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

*Government-wide and fund financial statements*

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District has no business-type activities, which is a significant change from the prior issued financial statements. See Note 12 for more information regarding this change in presentation.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, unrestricted investment income, and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

*Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, lease income, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, subject to the availability criterion.

All other revenue items are considered to be measurable and available only when cash is received by the government.

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Notes to the Financial Statements  
June 30, 2014

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

*Measurement focus, basis of accounting, and financial statement presentation (continued)*

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided by taxes levied on the District's constituents. Expenditures include all costs associated with the daily operations of the District except for those items included in other funds.

The *Special Revenue Fund* is used to account for the financial resources received and distributed to the Artesia General Hospital.

The *Capital Projects Fund* is used to account for the financial resources used for the acquisition and construction of land and improvements to the Artesia General Hospital and related costs.

The *Debt Service Fund* is used to account for the accumulation of resources and the payment of interest and principal on long-term general obligation bonds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

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.



**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Notes to the Financial Statements  
June 30, 2014

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

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 \$6,603,152 in 2014 and \$6,319,651 in 2013 in mill levy operating revenues. The amounts were used in accordance with the provisions of the property tax referendum. A General Obligation (GO) bond mill levy, approved by voters of Eddy County in November 2004 and August 2006 will expire in 2019. The District recorded \$3,280,928 in 2014 and \$2,407,262 in 2013 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 10<sup>th</sup> and April 10<sup>th</sup>. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. The District recognizes revenue from mill levy property taxes in the period for which they are levied, net of estimated refunds and uncollectible amounts.

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

Net Position and Fund Balances – Fund Balance Classification Policies and Procedures: The District has implemented GASB No. 54 and has defined the various categories reported in fund balance. For committed fund balance, the District's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish a fund balance commitment is the Board of Trustees.

For assigned fund balance, the Board of Trustees or an official or body to which the Board of Trustees delegates the authority is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

For the classification of fund balances, the District considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Nonspendable Fund Balance:** At June 30, 2014, the District has \$5,160 of nonspendable fund balances from the prepayments of expenditures.

**Restricted Fund Balance:** At June 30, 2014, the restricted fund balance on the governmental funds balance sheet is made up of \$5,131,597 for the payment of future debt service expenditures, \$11,115,016 for future capital outlay projects and \$5,061 restricted for general care from a donor.

The District has also not committed any portions of fund balance to specific purposes.

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Notes to the Financial Statements  
June 30, 2014

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

Net Position: Equity is classified as net position and displayed in three components:

- a. Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This financial statement caption has been increased by the amount of unspent bond proceeds in the amount of \$11,115,016.
- b. Restricted Net Position: Net position is reported as restricted when constraints are placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. Descriptions for the related restrictions for net position restricted for “debt service and capital projects” are described on page 28.
- c. Unrestricted Net Position: Net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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, 2014 and 2013, the District was not aware of any non-compliance with these requirements.

Investments - Investments 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 are included in non-operating revenue when earned.

Bond Related Items and Amortization – Bond premiums and discounts 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 an expense of current period as required by GASB Statement No. 65.

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.

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Notes to the Financial Statements  
 June 30, 2014

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

Comparability - Certain prior year balances have been reclassified to conform to the June 30, 2014 financial statement presentation. Additionally, certain terminology has been changed to conform to newly implemented pronouncements taking place during the fiscal year and other changes discussed in Note 12.

***Stewardship, Compliance and Accountability***

Budgetary Information – Annual budgets of the District 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 (legal level of control) 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:

	Net change in fund balance	
	Original Budget	Final Budget
General fund	\$ 254,125	\$ 225,802
Special revenue fund	\$ -	\$ -
Capital projects fund	\$ 5,673,000	\$ 11,805,827
Debt service fund	\$ (96,876)	\$ 611,855

The accompanying Statements 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, 2014 is presented. Reconciliations, if applicable, 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, 2014

**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, 2014.

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, 2014 \$18,861,555 of the District's bank balance of \$19,361,555 was exposed to custodial credit risk. Although the \$18,861,555 was uninsured, \$18,680,110 was collateralized by collateral held by the pledging bank's trust department, not in the District's name. \$181,445 of the District's deposits were uninsured and uncollateralized at June 30, 2014. 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.

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, 2014**

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

	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
Year ended June 30, 2014			
Total amount of deposits	\$ 18,098,314	\$ 1,263,241	\$ 19,361,555
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	<u>17,848,314</u>	<u>1,013,241</u>	<u>18,861,555</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name			
	17,848,314	831,796	18,680,110
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 181,445</u>	<u>\$ 181,445</u>
Collateral requirement (50% of uninsured public funds)			
	\$ 8,924,157	\$ 506,621	\$ 9,430,778
Pledged securities	19,960,700	831,796	20,792,496
Over (under) collateralization	<u>\$ 11,036,543</u>	<u>\$ 325,176</u>	<u>\$ 11,361,719</u>
	<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	6,745,272
Over (under) collateralization	<u>\$ 3,380,813</u>	<u>\$ 274,256</u>	<u>\$ 3,655,069</u>

Reconciliation to the Statement of Net Position

	<u>2014</u>	<u>2013</u>
Deposits	\$ 19,361,555	\$ 6,680,406
Reconciling items	(12,663)	-
Carrying amount	<u>\$ 19,348,892</u>	<u>\$ 6,680,406</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, 2014

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 13,343,349	\$ 1,986,918
Investments	1,263,241	1,262,032
Non-current cash and investments		
Restricted by donor for cardiac and general care	5,061	5,056
Restricted for debt service	4,737,241	3,426,400
Total	<u>\$ 19,348,892</u>	<u>\$ 6,680,406</u>

**NOTE 3. RESTRICTED NET POSITION**

Restricted net position is expendable for the following purposes:

	<u>2014</u>	<u>2013</u>
General care	\$ 5,061	\$ 5,056
Debt service	4,737,241	3,426,400
Total restricted net position	<u>\$ 4,742,302</u>	<u>\$ 3,431,456</u>

**NOTE 4. 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 \$6,605,471 and \$6,443,056 in 2014 and 2013 respectively and passed through to Artesia General Hospital the amounts of \$6,605,471 and \$6,443,056 in 2014 and 2013, 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 \$3,265,186 and \$2,407,262 in 2014 and 2013, 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 \$1,180,463 and \$955,490 at June 30, 2014 and 2013 respectively. Mill levy receivable consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Mill levy receivable		
Ad valorem	\$ 45,785	\$ 31,873
Oil and gas	1,135,136	923,936
Less: allowance for uncollectible amounts	(458)	(319)
Total Mill levy receivable	<u>\$ 1,180,463</u>	<u>\$ 955,490</u>

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Notes to the Financial Statements  
 June 30, 2014

**NOTE 5. ACCOUNTS RECEIVABLE AND PAYABLE**

Accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at June 30, 2014 and 2013 consisted of these amounts:

<b>Accounts Receivable and Accrued Interest</b>	<u><b>2014</b></u>	<u><b>2013</b></u>
Mill levy receivable, net of uncollectible amounts	\$ 1,180,463	\$ 955,490
Accrued interest receivable	266	262
Total accounts receivable and accrued interest	<u>\$ 1,180,729</u>	<u>\$ 955,752</u>
<b>Accounts Payable and Accrued Expenses</b>	<u><b>2014</b></u>	<u><b>2013</b></u>
Accounts payable to contractors and others	\$ 16,821	\$ 2,654
Accrued bond interest payable	375,745	153,652
Total accounts payable and accrued expenses	<u>\$ 392,566</u>	<u>\$ 156,306</u>

**NOTE 6. CAPITAL ASSETS**

Capital assets, additions, retirements, and balances for the year ended June 30, 2014 are as follows:

	<u><b>Balance June 30, 2013</b></u>	<u><b>Additions</b></u>	<u><b>Disposals</b></u>	<u><b>Adjustments/ Transfers</b></u>	<u><b>Balance June 30, 2014</b></u>
Non-depreciable assets:					
Land	\$ 60,052	\$ 286,000	\$ -	\$ -	\$ 346,052
Art work	1,835	-	-	-	1,835
	<u>61,887</u>	<u>286,000</u>	<u>-</u>	<u>-</u>	<u>347,887</u>
Depreciable assets:					
Land improvements	1,248,867	-	-	-	1,248,867
Buildings and improvements	33,862,405	3,013,589	-	-	36,875,994
Equipment	10,016,179	25,000	-	-	10,041,179
	<u>45,127,451</u>	<u>3,038,589</u>	<u>-</u>	<u>-</u>	<u>48,166,040</u>
Accumulated depreciation					
Land improvements	(859,290)	(89,571)	-	-	(948,861)
Buildings and improvements	(12,414,726)	(1,292,283)	-	-	(13,707,009)
Equipment	(8,661,877)	(583,241)	-	-	(9,245,118)
	<u>(21,935,893)</u>	<u>(1,965,095)</u>	<u>-</u>	<u>-</u>	<u>(23,900,988)</u>
Net capital assets	<u>\$ 23,253,445</u>	<u>\$ 1,359,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,612,939</u>

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Notes to the Financial Statements  
 June 30, 2014

**NOTE 6. CAPITAL ASSETS (continued)**

Depreciation expense for the years ended June 30, 2014 and 2013 was \$1,965,095 and \$2,032,410.

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

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Adjustments/ Transfers</b>	<b>Balance June 30, 2013</b>
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, 2014

**NOTE 7. LONG-TERM DEBT**

A schedule of changes in the District's General Obligation Bonds for 2014 and 2013 follows:

	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Reductions/ Adjustments</b>	<b>Balance June 30, 2014</b>	<b>Amounts Due Within One Year</b>
2005 GO Bond	\$ 1,395,000	\$ -	\$ 1,395,000	\$ -	\$ -
2006 GO Bond	4,375,000	-	550,000	3,825,000	575,000
2006 Premium	1,232	-	215	1,017	-
2012 GO Bond	8,680,000	-	45,000	8,635,000	1,320,000
2012 Premium	426,327	-	65,542	360,785	-
2013 GO Bond	-	14,500,000	-	14,500,000	1,310,000
2013 Premium	-	698,986	18,956	680,030	-
Total Long-Term Debt	<u>\$ 14,877,559</u>	<u>\$ 15,198,986</u>	<u>\$ 2,074,713</u>	<u>\$ 28,001,832</u>	<u>\$ 3,205,000</u>

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Reductions/ Adjustments</b>	<b>Balance June 30, 2013</b>	<b>Amounts Due Within One Year</b>
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>

Bonds outstanding at June 30, 2014, consist of the following issues:

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:

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	675,000	38,906	713,906
2020	700,000	13,125	713,125
Total	<u>\$ 3,825,000</u>	<u>\$ 444,619</u>	<u>\$ 4,269,619</u>

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Notes to the Financial Statements  
 June 30, 2014

**NOTE 7. LONG-TERM DEBT (continued)**

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.

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

<b>Fiscal Year</b>					
<b>Ending June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
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		1,500,000		45,700	1,545,700
2020		1,535,000		15,350	1,550,350
Total	\$	<u>8,635,000</u>	\$	<u>602,475</u>	<u>\$ 9,237,475</u>

General Obligation Bonds Series 2013  
 Original Issue : \$14,500,000  
 Principal : August 1  
 Interest : February 1 and August 1  
 Rates : 2.50% - 5.00%  
 Purpose: To renovate and make additions to the Hospital.

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

<b>Fiscal Year</b>					
<b>Ending June 30,</b>		<b>Principal</b>		<b>Interest</b>	<b>Total</b>
2015	\$	1,310,000	\$	511,350	\$ 1,821,350
2016		265,000		489,050	754,050
2017		265,000		483,750	748,750
2018		260,000		478,500	738,500
2019		270,000		473,200	743,200
2020-2024		8,270,000		1,732,125	10,002,125
2025-2026		3,860,000		177,375	4,037,375
Total	\$	<u>14,500,000</u>	\$	<u>4,345,350</u>	<u>\$ 18,845,350</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 8. 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.

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Notes to the Financial Statements  
 June 30, 2014

**NOTE 9. OTHER REQUIRED DISCLOSURES**

The District maintained no expenditures in excess of the authorized budget for the year ended June 30, 2014.

**NOTE 10. 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 2014, the special assessment was extended through tax year 2015.

**NOTE 11. SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2014, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures is October 9, 2014 which is the date on which the financial statements were available to be issued.

**NOTE 12. CHANGE IN ACCOUNTING POLICIES**

As noted in Note 1, the District has updated its accounting policies to conform to a governmental funds presentation as required by GASB Statement No. 34. The District now presents government-wide financial statements, as well as fund presentations, and the changes of accounting policies to reflect this change in the operating environment are outlined in Note 1. Overall equity of the District has not changed from the amounts presented in the fiscal year end 2013 financial statements, however a reconciliation of the full accrual presentation in the prior year to the beginning balance of modified accrual equity has been presented below:

Net position per financial statements as of June 30, 2013	\$	15,278,949
Less: prior year capital asset balance		(23,253,445)
Less: prior year bond issuance costs		(110,633)
Plus: prior year accrued interest		338,021
Plus: prior year book value of long-term debt		14,877,559
		14,877,559
Total beginning fund balance (modified accrual)	\$	7,130,451

**NOTE 13. SUBSEQUENT PRONOUNCEMENTS**

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 this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2015 and is not expected to impact the District’s financial statements.

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.

In November 2013, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement 68. The standard will be implemented during fiscal year June 30, 2015.

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**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
**Artesia Special Hospital District**  
**Capital Projects Fund**

Statement I

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ -	\$ -	\$ -	\$ -
Interest income	173,000	9,363	10,906	1,543
<i>Total revenues</i>	<u>173,000</u>	<u>9,363</u>	<u>10,906</u>	<u>1,543</u>
<i>Expenditures</i>				
Capital outlay	9,000,000	3,299,677	3,299,589	88
Debt service				
Bond issuance costs	-	102,845	102,845	-
<i>Total expenditures</i>	<u>9,000,000</u>	<u>3,402,522</u>	<u>3,402,434</u>	<u>88</u>
<i>Excess (deficiency) of revenues over</i>	<u>(8,827,000)</u>	<u>(3,393,159)</u>	<u>(3,391,528)</u>	<u>1,631</u>
<i>Other financing sources (uses)</i>				
Bond premiums	-	698,986	698,986	-
Bond proceeds	14,500,000	14,500,000	14,500,000	-
<i>Total other financing sources (uses)</i>	<u>14,500,000</u>	<u>15,198,986</u>	<u>15,198,986</u>	<u>-</u>
<i>Net change in fund balances</i>	5,673,000	11,805,827	11,807,458	1,631
<i>Fund balances - beginning of year</i>	<u>(692,442)</u>	<u>(692,442)</u>	<u>(692,442)</u>	<u>-</u>
<i>Fund balances - end of year</i>	<u>\$ 4,980,558</u>	<u>\$ 11,113,385</u>	<u>\$ 11,115,016</u>	<u>\$ 1,631</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**Artesia Special Hospital District**  
**Debt Service Fund**

Statement II

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ 2,410,000	\$ 3,133,784	\$ 3,133,784	\$ -
Interest income	8,700	8,946	4,214	(4,732)
<i>Total revenues</i>	2,418,700	3,142,730	3,137,998	(4,732)
 <i>Expenditures</i>				
Debt service				
Principal payments	1,990,000	1,990,000	1,990,000	-
Interest payments	525,576	540,875	540,875	-
<i>Total expenditures</i>	2,515,576	2,530,875	2,530,875	-
<i>Net change in fund balances</i>	(96,876)	611,855	607,123	(4,732)
<i>Fund balances - beginning of year</i>	4,577,440	4,577,440	4,577,440	-
<i>Fund balances - end of year</i>	\$ 4,480,564	\$ 5,189,295	\$ 5,184,563	\$ (4,732)
Net change in fund balances (Non-GAAP)			\$ 607,123	
Change in taxes receivable			147,144	
Difference in accrual for interest expense			(184,368)	
Revenue recognition difference for taxes for unavailable revenue			(15,742)	
Net change in fund balances (GAAP)			\$ 554,157	

The accompanying notes are an integral part of these financial statements

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## **SUPPORTING INFORMATION**

**STATE OF NEW MEXICO**  
 Artesia Special Hospital District  
 Schedule of Collateral Pledged by Depository  
 for Public Funds  
 June 30, 2014

Schedule I

Name of Depository and Description of Pledged Collateral	Fair Market/Par Value June 30, 2014	Name and Location of Safekeeper
<b>First American Bank</b>		
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
Albuquerque NM Muni Sch Due 8/1/2022, CUSIP #013595LM3**	1,300,000	Federal Home Loan Bank Dallas, Texas
Espanola Public SD Due 9/1/2026, CUSIP #29662RBB3**	2,095,000	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**	340,000	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
Federal Home Loan Bank Due 6/20/2040, CUSIP #36225EZN5	1,166,343	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 10/20/2040, CUSIP #36225E5F5	1,118,158	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 11/20/2040, CUSIP #36225E5X6	1,268,663	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 1/20/2041, CUSIP #36225FAN9	1,107,843	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 10/20/2041, CUSIP #36225FJV2	1,315,818	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 4/20/2042, CUSIP #36225MBB5	1,502,839	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 4/20/2042, CUSIP #36225MBN9	1,397,754	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank Due 6/20/2042, CUSIP #36225MFS4	1,468,282	Federal Home Loan Bank Dallas, Texas
	<u>\$ 19,960,700</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 Collateral Pledged by Depository  
 for Public Funds  
 June 30, 2014

Schedule I

Name of Depository and Description of Pledged Collateral	Fair Market/Par Value June 30, 2014	Name and Location of Safekeeper
<b>Western Bank</b>		
GNMA II Pool		
Due 6/20/2024, CUSIP #36202B5N1	\$ 25,621	Federal Home Loan Bank Dallas, Texas
Hobbs, NM		
Due 4/15/2024, CUSIP #433866DR8**	450,000	Federal Home Loan Bank Dallas, Texas
Albuquerque, NM		
Due 8/1/2017, CUSIP #031595QL0**	250,000	Federal Home Loan Bank Dallas, Texas
GNMA		
Due 9/20/2034, CUSIP #38376X3E1	106,175	Federal Home Loan Bank Dallas, Texas
	<u>\$ 831,796</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 Accounts  
 June 30, 2014

Schedule II

<u>Deposit Type</u>	<u>First American Bank</u>	<u>Western Bank</u>	<u>Total</u>
Operational - NOW checking	\$ 923,585	\$ -	\$ 923,585
Regular - MMF Checking	1,317,411	-	1,317,411
Bond sinking fund - MMF checking	4,737,241	-	4,737,241
General needs - NOW checking	5,061	-	5,061
Capital Projects - NOW checking	11,115,016	-	11,115,016
Certificate of deposit	-	1,263,241	1,263,241
Total on deposit	<u>18,098,314</u>	<u>1,263,241</u>	<u>19,361,555</u>
Reconciling items:			
Deposits in transit	-	-	-
Outstanding checks	<u>(12,663)</u>	<u>-</u>	<u>(12,663)</u>
Total June 30, 2014	<u>\$ 18,085,651</u>	<u>\$ 1,263,241</u>	<u>\$ 19,348,892</u>

Reconciliation to the June 30, 2014

Statement of Net Position

Unrestricted cash and cash equivalents	\$ 13,343,349
Investments	1,263,241
Cash restricted by donor for cardiac and general care	5,061
Cash restricted by bond indenture for debt service	<u>4,737,241</u>
	<u>\$ 19,348,892</u>

See Independent Auditors' Report

**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**

**INDEPENDENT AUDITORS' REPORT**

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

We have audited, in accordance with the 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 governmental activities, each major fund, and the budgetary comparison for the general fund and major special revenue fund of the Artesia Special Hospital District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and related budgetary comparisons for the major capital projects fund and major debt service fund of the District, presented as supplemental information, and have issued our report thereon dated October 9, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit, 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 misstatement of the entity'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 result 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, NM  
October 9, 2014

**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Schedule of Financial Statement Findings and Responses  
June 30, 2014

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Unmodified |
| 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**

**None**

**C. PRIOR YEAR AUDIT FINDINGS**

FS 13-01 Actual Expenditures Exceed Budgeted Expenditures – Other Matter, Resolved



**STATE OF NEW MEXICO**  
Artesia Special Hospital District  
Other Disclosures  
June 30, 2014

**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 13, 2014. The following individuals were in attendance.

Artesia Special Hospital District  
Dennis Maupin, Chairman

Auditor  
Bobby Cordova, Partner