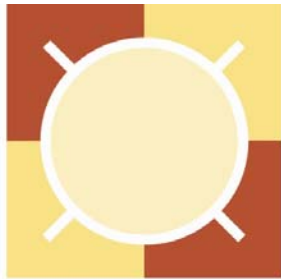


*State of New Mexico
Artesia Special Hospital District*

*Financial Statements
As of June 30, 2015*



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

(This page intentionally left blank)

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Table of Contents
 June 30, 2015

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Table of Contents		4
Official Roster		5
FINANCIAL SECTION		
Independent Auditors' Report		8-9
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements:		
Statements of Net Position	A-1	12
Statement of Activities	A-2	13
Fund Financial Statements:		
Balance Sheet- Governmental Funds	B-1	14
Reconciliation of the Balance Sheet to the Statement of Net Position		15
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	B-2	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities		17
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Budgetary Basis) and Actual:		
General Fund	C-1	18
Special Revenue Fund	C-2	19
 NOTES TO THE FINANCIAL STATEMENTS		 20-33
SUPPLEMENTARY INFORMATION		
Statement of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual		
Capital Projects Fund	Statement I	36
Debt Service Fund	Statement II	37
SUPPORTING INFORMATION		
Schedule of Collateral Pledged by Depository for Public Funds	Schedule I	40-41
Schedule of Deposit Accounts	Schedule II	42
Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)	Schedule III	43
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>		46-47
Schedule of Financial Statement Findings and Responses		48
OTHER DISCLOSURES		49

STATE OF NEW MEXICO
Artesia Special Hospital District
Official Roster
June 30, 2015

Board of Trustees

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

(This page intentionally left blank)

FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Timothy Keller
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, 2015, 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, 2015, 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, 2015, 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.

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 through III 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 Supporting Schedules I and II 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, Supporting Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and Schedule III 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, 2015 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, 2015

(This page intentionally left blank)

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Statements of Net Position
 June 30, 2015

Exhibit A-1

Assets

Current assets

Cash and cash equivalents	\$	9,266,534
Investments		1,264,178
Mill levy receivable, net		516,322
Other receivables		179,793
Accrued interest receivable		123
Prepaid expenses		8,408
Total current assets		11,235,358

Noncurrent cash and investments

Cash restricted by bond indenture for debt service		3,463,519
Land		346,052
Capital assets, net of accumulated depreciation		22,598,961
Construction in progress		5,300,693
Total noncurrent assets		31,709,225

Total assets	\$	42,944,583
---------------------	----	-------------------

Liabilities and Net Position

Current liabilities

Accounts payable	\$	979,189
Due to Artesia General Hospital		371,803
Accrued interest		327,786
Current portion of long-term debt		2,245,000
Total current liabilities		3,923,778

Long-term liabilities

Long-term debt, net of current maturities		22,465,023
Total long-term liabilities		22,465,023

Total liabilities		26,388,801
--------------------------	--	-------------------

Net position

Net investment in capital assets		9,225,245
Restricted, expendable for:		
Debt service		3,608,038
Unrestricted		3,722,499
Total net position		16,555,782

Total liabilities and net position	\$	42,944,583
---	----	-------------------

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Statement of Activities
 For the year ended June 30, 2015

Exhibit A-2

	<u>Governmental Activities</u>
Program Expenses	
General government	\$ 7,444,800
Interest	<u>660,412</u>
Total program expenses	<u>8,105,212</u>
Program Revenues	
Charges for services	
Lease income	<u>486,645</u>
Capital grants	<u>225,000</u>
Net (expense) revenue - general government	<u>(7,393,567)</u>
General Revenues	
Mill levy tax	7,950,057
Interest income	16,268
Miscellaneous revenues	<u>67</u>
Total general revenues	<u>7,966,392</u>
Change in net position	572,825
Total net position - beginning of year	<u>15,982,957</u>
Total net position - end of year	<u><u>\$ 16,555,782</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Balance Sheet
 Governmental Funds
 June 30, 2015

Exhibit B-1

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<i>Assets</i>					
Cash and cash equivalents	\$ 2,779,960	\$ -	\$ 6,486,574	\$ 3,463,519	\$ 12,730,053
Investments	1,264,178	-	-	-	1,264,178
Receivables					
Mill levy, net of allowance	-	371,803	-	144,519	516,322
Other	-	-	179,793	-	179,793
Interest	123	-	-	-	123
Prepaid expenses	8,408	-	-	-	8,408
<i>Total assets</i>	<u>\$ 4,052,669</u>	<u>\$ 371,803</u>	<u>\$ 6,666,367</u>	<u>\$ 3,608,038</u>	<u>\$ 14,698,877</u>
<i>Liabilities</i>					
Accounts payable	\$ 2,384	\$ -	\$ 976,805	\$ -	\$ 979,189
Due to Artesia General Hospital	-	371,803	-	-	371,803
<i>Total liabilities</i>	<u>2,384</u>	<u>371,803</u>	<u>976,805</u>	<u>-</u>	<u>1,350,992</u>
<i>Deferred inflows of resources</i>					
Unavailable revenue - levied taxes	-	24,322	-	9,011	33,333
<i>Total deferred inflows of resources</i>	<u>-</u>	<u>24,322</u>	<u>-</u>	<u>9,011</u>	<u>33,333</u>
<i>Fund balances</i>					
Nonspendable	8,408	-	-	-	8,408
Spendable:					
Restricted for:					
Debt service	-	-	-	3,599,027	3,599,027
Capital projects	-	-	5,689,562	-	5,689,562
General care	-	-	-	-	-
Unassigned	4,041,877	(24,322)	-	-	4,017,555
<i>Total fund balances</i>	<u>4,050,285</u>	<u>(24,322)</u>	<u>5,689,562</u>	<u>3,599,027</u>	<u>13,314,552</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 4,052,669</u>	<u>\$ 371,803</u>	<u>\$ 6,666,367</u>	<u>\$ 3,608,038</u>	<u>\$ 14,698,877</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Artesia Special Hospital District
Governmental Funds

Exhibit B-1
Page 2 of 2

Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2015

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

Fund balances - total governmental funds	\$ 13,314,552
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	28,245,706
Certain tax collections are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	33,333
Accrued interest is not due and payable with current financial resources and therefore is not reported in the funds	(327,786)
Some liabilities, including bonds payable and bond premiums, are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	<u>(24,710,023)</u>
Total net position	<u>\$ 16,555,782</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, 2015

Exhibit B-2

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<i>Revenues</i>					
Mill levy	\$ -	\$ 5,453,261	\$ -	\$ 2,508,790	\$ 7,962,051
State capital grants	225,000	-	-	-	225,000
Lease income	486,645	-	-	-	486,645
Interest	6,503	-	9,995	7,877	24,375
Miscellaneous	67	-	-	-	67
<i>Total revenues</i>	<u>718,215</u>	<u>5,453,261</u>	<u>9,995</u>	<u>2,516,667</u>	<u>8,698,138</u>
<i>Expenditures</i>					
Current					
General government	153,170	5,447,998	-	-	5,601,168
Capital outlay	-	-	5,435,449	-	5,435,449
Debt service					
Principal	-	-	-	3,205,000	3,205,000
Interest	-	-	-	844,237	844,237
<i>Total expenditures</i>	<u>153,170</u>	<u>5,447,998</u>	<u>5,435,449</u>	<u>4,049,237</u>	<u>15,085,854</u>
<i>Net change in fund balances</i>	565,045	5,263	(5,425,454)	(1,532,570)	(6,387,716)
<i>Fund balances - beginning</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>Fund balances - ending</i>	<u>\$ 4,050,285</u>	<u>\$ (24,322)</u>	<u>\$ 5,689,562</u>	<u>\$ 3,599,027</u>	<u>\$ 13,314,552</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, 2015

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

Net change in fund balances - total governmental funds	\$ (6,387,716)
--	----------------

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:

Capital assets reported as capital outlay expenditures	5,435,449
Capitalized interest	64,852
Depreciation and amortization	(1,843,633)
Amortization	(23,901)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:

Change in unavailable revenue related to taxes receivable	(11,994)
---	----------

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:

Increase in accrued interest	47,959
Amortization of bond premiums	86,809
Principal payments on bonds	3,205,000
	3,205,000

Change in net position of governmental activities	\$ 572,825
---	------------

STATE OF NEW MEXICO
Artesia Special Hospital District
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
State capital grants	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Lease income	526,000	486,645	486,405	(240)
Interest income	7,000	6,646	6,380	(266)
Miscellaneous	140	67	67	-
<i>Total revenues</i>	<u>758,140</u>	<u>718,358</u>	<u>717,852</u>	<u>(506)</u>
<i>Expenditures</i>				
General government	105,175	170,687	158,954	11,733
<i>Total expenditures</i>	<u>105,175</u>	<u>170,687</u>	<u>158,954</u>	<u>11,733</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>652,965</u>	<u>547,671</u>	<u>558,898</u>	<u>11,227</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(652,965)	(547,671)	-	(547,671)
<i>Total other financing sources (uses)</i>	<u>(652,965)</u>	<u>(547,671)</u>	<u>-</u>	<u>(547,671)</u>
<i>Net change in fund balances</i>	-	-	558,898	558,898
<i>Fund balances - beginning of year</i>	-	-	3,485,240	3,485,240
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,044,138</u>	<u>\$ 4,044,138</u>
			\$ 558,898	
			363	
			<u>5,784</u>	
			<u>\$ 565,045</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, 2015

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ 6,325,000	\$ 5,846,560	\$ 5,447,998	\$ (398,562)
Interest income	-	-	-	-
<i>Total revenues</i>	<u>6,325,000</u>	<u>5,846,560</u>	<u>5,447,998</u>	<u>(398,562)</u>
<i>Expenditures</i>				
General government	6,325,000	5,846,560	5,447,998	398,562
<i>Total expenditures</i>	<u>6,325,000</u>	<u>5,846,560</u>	<u>5,447,998</u>	<u>398,562</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>5,263</u>
			Net change in fund balances (GAAP)	<u>\$ 5,263</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, 2015

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 District did not renew the Operating Agreement with CHC, which expired on October 31, 2014.

District Funding Agreement with AGH

On November 1, 2014 the District entered into a Hospital Funding Agreement with AGH. Under this agreement, the District must pay to AGH unit the total amount of the mill levy tax that the District receives each year. In turn, AGH must continue to provide the same level and type of services and programs as the hospital is currently providing including services provided by the rural health care clinic, to the extent AGH is financially capable of providing such services and participate in the Medicare and Medicaid programs, as well as such other healthcare programs in which the citizens of the Community are insureds or enrollees to the extent AGH's participation in said healthcare program is financially feasible.

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. During the year, the agreement terminated in October 2014 however payments for the lease of the facilities and equipment continued throughout the year which totaled \$378,000. As of July 1, 2015 a renewed agreement was approved and put in place covering the period from July 1, 2015 to October 31, 2019, the tenant will pay rent to the landlord in the amount of \$915,600 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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

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

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, 2015, the District adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* ("GASB 68"), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* ("GASB 71"). These two Statements are required to be implemented at the same time. Both Statements currently do not have any effect on the District as there are no employees that participate in the State of New Mexico Public Employees Retirement Act.

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.

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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

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

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

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.

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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

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

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 \$5,453,261 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 \$2,508,790 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.

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. The District received \$225,000 in state grants during the year.

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, 2015, the District has \$8,408 of nonspendable fund balances from the prepayments of expenditures.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

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

Restricted Fund Balance: At June 30, 2015, the restricted fund balance on the governmental funds balance sheet is made up of \$3,599,027 for the payment of future debt service expenditures and \$5,689,562 for future capital outlay projects.

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

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 \$5,689,562.

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 22.

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.

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, 2015

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

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	\$ 652,965	\$ 547,671
Special revenue fund	\$ -	\$ -
Capital projects fund	\$ 5,994,600	\$ 4,628,442
Debt service fund	\$ (1,085,688)	\$ (1,273,050)

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, 2015 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, 2015

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, 2015.

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.

District 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. 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, 2015, \$13,500,882 of the District's bank balance of \$14,000,882 was exposed to custodial credit risk. Although the \$13,500,882 was uninsured, \$13,473,186 was collateralized by collateral held by the pledging bank's trust department, not in the District's name. \$27,696 of the District's deposits were uninsured and uncollateralized at June 30, 2015.

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, 2015

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

	<u>First American</u>	<u>Western Bank</u>	<u>Total</u>
Year ended June 30, 2015			
Total amount of deposits	\$ 12,736,704	\$ 1,264,178	\$ 14,000,882
FDIC Coverage	(250,000)	(250,000)	(500,000)
Total uninsured public funds	<u>12,486,704</u>	<u>1,014,178</u>	<u>13,500,882</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	<u>12,486,704</u>	<u>986,482</u>	<u>13,473,186</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ 27,696</u>	<u>\$ 27,696</u>
Collateral requirement (50% of uninsured public funds)	\$ 6,243,352	\$ 507,089	\$ 6,750,441
Pledged securities	<u>16,247,453</u>	<u>986,482</u>	<u>17,233,935</u>
Over (under) collateralization	<u>\$ 10,004,101</u>	<u>\$ 479,393</u>	<u>\$ 10,483,494</u>

Reconciliation to the Statement of Net Position

	<u>2015</u>
Deposits	\$ 14,000,882
Reconciling items	(6,651)
Carrying amount	<u>\$ 13,994,231</u>

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

	<u>2015</u>
Cash and cash equivalents	\$ 9,266,534
Investments	1,264,178
Non-current cash and investments Restricted for debt service	<u>3,463,519</u>
Total	<u>\$ 13,994,231</u>

NOTE 3. RESTRICTED NET POSITION

Restricted net position is expendable for the following purposes:

	<u>2015</u>
Debt service	\$ 3,608,038
Total restricted net position	<u>\$ 3,608,038</u>

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2015

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 \$5,453,261 and passed these funds through to Artesia General Hospital.

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 \$2,508,790. This mill levy was passed by the voters in November 2004, August 2006 and August 2013. Bonds are scheduled to be paid off August 2026.

The total Mill levy receivable was \$516,322. Mill levy receivable consists of the following:

	2015
Mill levy receivable	
Ad valorem	\$ 40,224
Oil and gas	476,765
Less: allowance for uncollectible amounts	(667)
Total Mill levy receivable	\$ 516,322

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, 2015 consisted of these amounts:

Accounts Receivable and Accrued Interest	2015
Mill levy receivable, net of uncollectible amounts	\$ 516,322
Reimbursements from Artesia General Hospital	179,793
Accrued interest receivable	123
Total accounts receivable and accrued interest	\$ 696,238

Accounts Payable and Accrued Expenses	2015
Accounts payable to contractors and others	\$ 979,189
Accrued bond interest payable	327,786
Total accounts payable and accrued expenses	\$ 1,306,975

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2015

NOTE 6. CAPITAL ASSETS

Capital assets, additions, retirements, and balances for the year ended June 30, 2015 are as follows:

	Balance June 30, 2014	Additions	Disposals	Adjustments/ Transfers	Balance June 30, 2015
Non-depreciable assets:					
Land	\$ 346,052	\$ -	\$ -	\$ -	\$ 346,052
Art work	1,835	-	-	-	1,835
Construction in progress	-	5,300,693	-	-	5,300,693
	<u>347,887</u>	<u>5,300,693</u>	<u>-</u>	<u>-</u>	<u>5,648,580</u>
Depreciable assets:					
Land improvements	1,248,867	-	-	-	1,248,867
Buildings and improvements	36,875,994	64,852	-	-	36,940,846
Equipment	10,041,179	134,756	-	-	10,175,935
	<u>48,166,040</u>	<u>199,608</u>	<u>-</u>	<u>-</u>	<u>48,365,648</u>
Accumulated depreciation					
Land improvements	(948,861)	(89,571)	-	-	(1,038,432)
Buildings and improvements	(13,707,009)	(1,381,109)	-	-	(15,088,118)
Equipment	(9,245,118)	(396,854)	-	-	(9,641,972)
	<u>(23,900,988)</u>	<u>(1,867,534)</u>	<u>-</u>	<u>-</u>	<u>(25,768,522)</u>
Net capital assets	<u>\$ 24,612,939</u>	<u>\$ 3,632,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,245,706</u>

Depreciation expense for the years ended was \$1,867,534.

NOTE 7. LONG-TERM DEBT

A schedule of changes in the District's General Obligation Bonds for 2015 follows:

	Balance June 30, 2014	Additions	Reductions/ Adjustments	Balance June 30, 2015	Amounts Due Within One Year
2006 GO Bond	\$ 3,825,000	\$ -	\$ 575,000	\$ 3,250,000	\$ 600,000
2006 Premium	1,017	-	211	806	-
2012 GO Bond	8,635,000	-	1,320,000	7,315,000	1,380,000
2012 Premium	360,785	-	79,396	281,389	-
2013 GO Bond	14,500,000	-	1,310,000	13,190,000	265,000
2013 Premium	680,030	-	7,202	672,828	-
Total Long-Term Debt	<u>\$ 28,001,832</u>	<u>\$ -</u>	<u>\$ 3,291,809</u>	<u>\$ 24,710,023</u>	<u>\$ 2,245,000</u>

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2015

NOTE 7. LONG-TERM DEBT (continued)

Bonds outstanding at June 30, 2015, 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:

Fiscal Year					
Ending June 30,		Principal		Interest	Total
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>3,250,000</u>	\$	<u>312,482</u>	<u>\$ 3,562,482</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.

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

Fiscal Year					
Ending June 30,		Principal		Interest	Total
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>7,315,000</u>	\$	<u>401,725</u>	<u>\$ 7,716,725</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.

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Notes to the Financial Statements
 June 30, 2015

NOTE 7. 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,						
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		270,000		467,125		737,125
2021-2025		9,950,000		1,394,625		11,344,625
2026		1,910,000		47,750		1,957,750
Total	\$	<u>13,190,000</u>	\$	<u>3,834,000</u>	\$	<u>17,024,000</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.

NOTE 9. OTHER REQUIRED DISCLOSURES

A. Deficit fund balance of individual funds. The following fund maintained a deficit fund balance at June 30, 2015:

Major Fund	
Special Revenue Fund	\$24,322

B. Excess of expenditures over appropriations. The District did not have any funds that maintained expenditures in excess of authorized budget for the year ended June 30, 2015:

C. Designated cash appropriations in excess of available balance. The District did not have any funds with designated cash appropriations in excess of available balances for the year ended June 30, 2015.

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.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

NOTE 11. COMMITMENTS

The District had construction projects ongoing as of June 30, 2015 that will continue into the following fiscal year and are expected to be substantially completed in January 2016. These projects are as follows:

Project	Estimate to Completion	
Operating Room Expansion	\$	1,736,422
Artesia Professional Building #2	\$	2,307,577

NOTE 12. BUDGETARY STATEMENTS

The District has presented an adjustment to beginning fund balance in the Debt Service Fund budgetary comparison statement as a result of the prior year conversion from a proprietary fund to governmental funds presentation. The beginning fund balance as adjusted in the amount of \$4,737,241 agrees to the beginning cash balance as of June 30, 2014, which is the budgetary basis fund balance as described in Note 1.

NOTE 13. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2015, 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, 2015 which is the date on which the financial statements were available to be issued.

On July 27, 2015 the Board approved entering into a renewal of the Facility and Equipment Lease agreement dated October 2009 by and between the District and Artesia General Hospital. The lease term is five years, commencing on July 1, 2015 and ending on June 30, 2020. Rent is due the District in monthly installments of \$76,300. The lease is subject to approval by the State Board of Finance (“SBOF”). The District is scheduled to appear before the SBOF on October 20, 2015 to seek approval for the lease agreement.

On July 27, 2015 the Board approved entering into a lease agreement with Yucca Dental Center, P.C. for lease of approximately 2,063 square feet of rentable area in the Artesia Professional Building #2 owned by the District. The building is currently being remodeled by the District. The lease term is for 10 years from the date Yucca Dental P.C. opens for business in the leased premises. Rent will be due the District in monthly installments as set forth below:

From	Month 1	through	Month 24:	\$4,371.20 monthly
From	Month 25	through	Month 48:	\$4,592.49 monthly
From	Month 49	through	Month 72:	\$4,824.99 monthly
From	Month 73	through	Month 96:	\$5,069.25 monthly
From	Month 97	through	Month 120:	\$5,325.88 monthly

The lease is subject to approval by the State Board of Finance. The District is currently gathering the required submission information to submit to the SBOF before requesting to appear before the SBOF.

NOTE 14. SUBSEQUENT PRONOUNCEMENTS

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The District will implement this standard during the fiscal year ended June 30, 2016. The District is still evaluating how this pronouncement will affect the financial statements.

STATE OF NEW MEXICO
Artesia Special Hospital District
Notes to the Financial Statements
June 30, 2015

NOTE 14. SUBSEQUENT PRONOUNCEMENTS (continued)

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the District.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the District's financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. This pronouncement will not effect the District's financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The District will implement this standard during the fiscal year ended June 30, 2016. The District expects the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The District will implement this standard during the fiscal year ended June 30, 2017. The District is still evaluating how this pronouncement will effect the financial statements.

(This page intentionally left blank)

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Statement I

Artesia Special Hospital District

Capital Projects Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variations
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ -	\$ -	\$ -	\$ -
Interest income	5,400	9,995	9,995	-
<i>Total revenues</i>	<u>5,400</u>	<u>9,995</u>	<u>9,995</u>	<u>-</u>
<i>Expenditures</i>				
Capital outlay	6,000,000	4,638,437	4,638,437	-
<i>Total expenditures</i>	<u>6,000,000</u>	<u>4,638,437</u>	<u>4,638,437</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(5,994,600)</u>	<u>(4,628,442)</u>	<u>(4,628,442)</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	5,994,600	4,628,442	-	(4,628,442)
<i>Total other financing sources (uses)</i>	<u>5,994,600</u>	<u>4,628,442</u>	<u>-</u>	<u>(4,628,442)</u>
<i>Net change in fund balances</i>	-	-	(4,628,442)	(4,628,442)
<i>Fund balances - beginning of year</i>	<u>-</u>	<u>-</u>	11,115,016	11,115,016
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,486,574</u>	<u>\$ 6,486,574</u>
			\$ (4,628,442)	
			179,793	
			<u>(976,805)</u>	
			<u>\$ (5,425,454)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement II

Artesia Special Hospital District

Debt Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variations
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues</i>				
Mill levy tax	\$ 2,955,000	\$ 2,767,638	\$ 2,767,638	\$ -
Interest income	8,550	8,550	7,877	(673)
<i>Total revenues</i>	<u>2,963,550</u>	<u>2,776,188</u>	<u>2,775,515</u>	<u>(673)</u>
<i>Expenditures</i>				
Debt service				
Principal payments	3,205,000	3,205,000	3,205,000	-
Interest payments	844,238	844,238	844,237	1
<i>Total expenditures</i>	<u>4,049,238</u>	<u>4,049,238</u>	<u>4,049,237</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,085,688)</u>	<u>(1,273,050)</u>	<u>(1,273,722)</u>	<u>(672)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	1,085,688	1,273,050	-	(1,273,050)
<i>Total other financing sources (uses)</i>	<u>1,085,688</u>	<u>1,273,050</u>	<u>-</u>	<u>(1,273,050)</u>
<i>Net change in fund balances</i>	-	-	(1,273,722)	(1,273,722)
<i>Fund balances - beginning of year</i>	-	-	5,184,563	5,184,563
<i>Adjustment - Note 12</i>	-	-	(447,322)	(447,322)
<i>Beginning fund balance, as adjusted</i>	-	-	4,737,241	4,737,241
<i>Fund balances - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,463,519</u>	<u>\$ 3,463,519</u>
			Net change in fund balances (Non-GAAP)	\$ (1,273,722)
			Change in taxes receivable	(265,559)
			Adjustments for revenue recognition differences for mill levy taxes	<u>6,711</u>
			Net change in fund balances (GAAP)	<u>\$ (1,532,570)</u>

The accompanying notes are an integral part of these financial statements

(This page intentionally left blank)

SUPPORTING INFORMATION

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Schedule of Collateral Pledged by Depository
 for Public Funds
 June 30, 2015

Schedule I

Name of Depository and Description of Pledged Collateral	Fair Market Value June 30, 2015	Name and Location of Safekeeper
First American Bank		
Gadsden ISD		
Due 8/15/2023, CUSIP #362550MG7	\$ 1,046,302	Federal Home Loan Bank Dallas, Texas
Lea Cnty NM Public Sch		
Due 1/15/2019, CUSIP #521513BT7	265,990	Federal Home Loan Bank Dallas, Texas
Grants & Cibola Cntys NM		
Due 4/15/2020, CUSIP #388240FS7	450,837	Federal Home Loan Bank Dallas, Texas
Albuquerque NM Muni Sch		
Due 8/1/2020, CUSIP #013595LK7	1,029,897	Federal Home Loan Bank Dallas, Texas
Albuquerque NM Muni Sch		
Due 8/1/2022, CUSIP #013595LM3	1,423,942	Federal Home Loan Bank Dallas, Texas
Espanola Public SD		
Due 9/1/2026, CUSIP #29662RBB3	1,989,223	Federal Home Loan Bank Dallas, Texas
Estancia NM Muni Sch Dist		
Due 6/15/2021, CUSIP #297326EF3	186,011	Federal Home Loan Bank Dallas, Texas
Gallup McKinley NM SD		
Due 8/1/2021, CUSIP #364010NW4	419,364	Federal Home Loan Bank Dallas, Texas
Texico NM Mun Sch Dist		
Due 8/1/2021, CUSIP #883005CH1	89,990	Federal Home Loan Bank Dallas, Texas
Belen NM Cons Sch Dist		
Due 8/1/2022, CUSIP #077581NG7	800,430	Federal Home Loan Bank Dallas, Texas
Clovis NM Muni SD #001		
Due 8/1/2022, CUSIP #189414GQ2	829,200	Federal Home Loan Bank Dallas, Texas
Clovis NM Muni SD #001		
Due 8/1/2023, CUSIP #189414GR0	812,045	Federal Home Loan Bank Dallas, Texas
Hobbs NM Sch Dist #16		
Due 4/15/24, CUSIP #433866DR8	841,882	Federal Home Loan Bank Dallas, Texas
Alamogordo NM Assuri		
Due 8/1/28, CUSIP #011446GB1	317,751	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 10/20/2040, CUSIP #36225E5F5	901,801	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 11/20/2040, CUSIP #36225E5X6	1,035,421	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 1/20/2041, CUSIP #36225FAN9	806,407	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 10/20/2041, CUSIP #36225FJV2	908,446	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 4/20/2042, CUSIP #36225MBB5	1,095,235	Federal Home Loan Bank Dallas, Texas
Federal Home Loan Bank		
Due 6/20/2042, CUSIP #36225MFS4	997,279	Federal Home Loan Bank Dallas, Texas
	\$ <u>16,247,453</u>	

See Independent Auditors' Report

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Schedule of Collateral Pledged by Depository
 for Public Funds
 June 30, 2015

Schedule I

Name of Depository and Description of Pledged Collateral	Fair Market Value June 30, 2015	Name and Location of Safekeeper
Western Bank		
GNMA II Pool		
Due 6/20/2024, CUSIP #36202B5N1	\$ 23,748	Federal Home Loan Bank Dallas, Texas
Hobbs, NM School District		
Due 4/15/2024, CUSIP #433866DR8	276,301	Federal Home Loan Bank Dallas, Texas
Albuquerque, NM Mun Sch District		
Due 8/1/2017, CUSIP #031595QL0	264,645	Federal Home Loan Bank Dallas, Texas
Hobbs, NM School District		
Due 4/15/2024, CUSIP #433866DR8	221,041	Federal Home Loan Bank Dallas, Texas
FFCB		
Due 10/22/2024, CUSIP #3133EDZB1	200,747	Federal Home Loan Bank Dallas, Texas
	\$ <u>986,482</u>	

See Independent Auditors' Report

STATE OF NEW MEXICO
 Artesia Special Hospital District
 Schedule of Deposit Accounts
 June 30, 2015

Schedule II

<u>Deposit Type</u>	<u>First American Bank</u>	<u>Western Bank</u>	<u>Total</u>
Operational - NOW checking	\$ 1,459,050	\$ -	\$ 1,459,050
Regular - MMF Checking	1,321,369	-	1,321,369
Operational Mill Levy	880	-	880
Bond sinking fund - MMF checking	3,463,519	-	3,463,519
General needs - NOW checking	-	-	-
Capital Projects - NOW checking	6,491,887	-	6,491,887
Certificate of deposit	-	1,264,178	1,264,178
Total on deposit	<u>12,736,705</u>	<u>1,264,178</u>	<u>14,000,883</u>
Reconciling items:			
Outstanding checks	<u>(6,652)</u>	<u>-</u>	<u>(6,652)</u>
Total June 30, 2015	<u>\$ 12,730,053</u>	<u>\$ 1,264,178</u>	<u>\$ 13,994,231</u>

Reconciliation to the June 30, 2015

Statement of Net Position

Unrestricted cash and cash equivalents	\$ 9,266,534
Investments	1,264,178
Cash restricted by bond indenture for debt service	<u>3,463,519</u>
	<u>\$ 13,994,231</u>

See Independent Auditors' Report

Artesia Special Hospital District
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
 For the Year Ended June 30, 2015

Prepared by Agency Staff Name: Dennis P. Maupin Title: Chairman Date 10/01/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
	Request for Bid	Jaynes Corporation	1,831,333.00	2,992,891.55	2906 Broadway; Albuquerque, NM 87107	Y	N	Artesia Professional Building #2 Renovation
	Request for Bid	TIC Thompson			2509 W. Hermosa Dr; Artesia, NM 88210	Y	N/A	Artesia Professional Building #2 Renovation
	Request for Bid	National Construction, Inc.			P.O. Box 1479; Alamogordo, NM 88311	Y	N/A	Artesia Professional Building #2 Renovation
	Request for Bid	Centerline Construction			7433 Hwy 62, Ste B; Lubbock, TX 79407	N	N/A	Artesia Professional Building #2 Renovation
	Request for Bid	Jaynes Corporatin	6,234,729.00	6,335,596.64	2906 Broadway; Albuquerque, NM 87107	Y	N	OR Expansion/Parking Lot Additions
	Request for Bid	Lee Lewis Construction, Inc.			7810 Orlando Ave; Lubbock, TX 79423	N	N/A	OR Expansion/Parking Lot Additions
	Request for Bid	Gerald A. Martin, Ltd.			4901 McLeod Rd NE; Albuquerque, NM 87103	Y	N/A	OR Expansion/Parking Lot Additions
	Request for Bid	Ideacom	186,535.65		1602-C North University; Lubbock, TX 79415	N	N/A	Nurse Call System
	Request for Bid	Constructors, Inc.	197,800.00		3003 S. Boyd Drive; Carlsbad, NM 88220	Y	N/A	South Parking Lot Replacement

(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**

INDEPENDENT AUDITORS' REPORT

Timothy Keller
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, 2015, 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, 2015.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in accompanying schedule of findings and responses as item FS 2015-001.

District's Responses to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of 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 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, 2015

STATE OF NEW MEXICO
Artesia Special Hospital District
Schedule of Financial Statement Findings and Responses
June 30, 2015

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None Noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Noted |
| c. Noncompliance material to the financial statements noted? | None Noted |

B. FINDINGS – FINANCIAL STATEMENT AUDIT

FS 2015-001 Annual Inventory – Other noncompliance

Condition: The District has not performed an annual capital asset inventory of all movable chattels and equipment on the inventory listing. In addition, this listing had not been certified by the governing authority of the agency.

Criteria: According to State Audit Rule 2.2.2.10 V Capital Asset Inventory: (2) Section 12-20-1-16 NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the agency's auditors. In addition according to NMAC 2.20.1.16 (E) the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency.

Effect: Items could be present on the capital assets listing that do not exist or items could exist that are not on the listing.

Cause: The District was aware of the requirement of an inventory of movable chattels and equipment and has completed for the year end, however the District did not obtain certification of the annual asset inventory.

Auditors' Recommendations: We recommend the District certify the annual capital asset inventory timely once this is completed by the governing body of the District.

Agency's Response: The District will comply with the above statute. The Governing Body will take steps immediately to implement a plan for this to take place during fiscal year 2016.

C. PRIOR YEAR AUDIT FINDINGS

None

STATE OF NEW MEXICO
Artesia Special Hospital District
Other Disclosures
June 30, 2015

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, 2015. The following individuals were in attendance.

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

Auditor
Bobby Cordova, Partner