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**ARTESIA SPECIAL
HOSPITAL DISTRICT**

**FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT**

JUNE 30, 2018 and 2017

ARTESIA SPECIAL HOSPITAL DISTRICT

TABLE OF CONTENTS

Official Roster	1
Independent Auditor's Report	2
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statements of Net Position	5
Statements of Activities	6
<i>Governmental Fund Financial Statements:</i>	
Balance Sheets	7
Reconciliation of the Balance Sheets to the Statements of Net Position	9
Statements of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	12
Statements of Revenues, Expenses and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual - General Fund	13
Statements of Revenues, Expenses and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual Special - Revenue Fund	15
Notes to Financial Statements	17
Supplemental Information	
Schedules of Collateral Pledged by Depository - Public Fund	33
Schedules of Individual Deposit and Investment Accounts	35
Compliance Section	
Independent Auditor's 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>	37
Schedule of Findings and Responses	39
Exit Conference	40

**STATE OF NEW MEXICO
ARTESIA SPECIAL HOSPITAL DISTRICT
OFFICIAL ROSTER
JUNE 30, 2018**

Board of Trustees

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

FINANCIAL SECTION



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Independent Auditor's Report

To the Board of Trustees
Artesia Special Hospital District
Artesia, New Mexico
and
Wayne Johnson, State Auditor

Report on the 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 years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the budgetary comparisons for the general fund and major special revenue fund of the District as of June 30, 2018 and 2017, and the respective changes in its financial position for the years 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 that accounting principles generally accepted in the United States of America require 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.

Supplemental 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 accompanying schedules of collateral pledged by depository public fund and individual deposit and investment accounts, as required by Section 2.2.2 NMAC, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, 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.

Ricci & Company LLC

Albuquerque, New Mexico
October 15, 2018

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENTS OF NET POSITION -
GOVERNMENT WIDE
June 30, 2018 and 2017**

	Governmental Activities	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,564,442	6,326,032
Investments	1,284,217	1,267,091
Mill levy receivable, net	818,618	667,242
Accrued interest receivable	505	1,708
Prepaid expenses	8,668	8,195
Total current assets	9,676,450	8,270,268
Noncurrent Assets		
Cash restricted by bond indenture for debt service	4,135,586	3,546,970
Land	346,052	346,052
Art work	1,835	1,835
Capital assets, net of accumulated depreciation	26,631,599	28,515,626
Total noncurrent assets	31,115,072	32,410,483
Total assets	\$ 40,791,522	40,680,751
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 897	635
Due to Artesia General Hospital	435,278	350,689
Accrued interest	245,068	269,546
Current portion of long-term debt	2,445,000	2,385,000
Total current liabilities	3,126,243	3,005,870
Long-Term Liabilities		
Long-term debt, net of current maturities	15,078,919	17,587,309
Total long-term liabilities	15,078,919	17,587,309
Total liabilities	18,205,162	20,593,179
Net Position		
Net investment in capital assets	9,455,567	8,891,204
Restricted for:		
Debt service	4,518,926	3,863,523
Capital projects	3,000,160	1,499,283
Unrestricted	5,611,707	5,833,562
Total net position	22,586,360	20,087,572
Total liabilities and net position	\$ 40,791,522	40,680,751

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENTS OF ACTIVITIES -
GOVERNMENT WIDE
Years Ended June 30, 2018 and 2017**

	Governmental Activities	
	2018	2017
PROGRAM EXPENSES		
General government	\$ 6,129,404	6,124,218
Interest	529,668	576,393
Total program expenses	6,659,072	6,700,611
PROGRAM REVENUE		
Lease income	1,305,873	1,278,380
Total program revenue	1,305,873	1,278,380
Net program (expense) revenue - general government	(5,353,199)	(5,422,231)
GENERAL REVENUE		
Mill levy tax	7,820,517	7,672,873
Interest income	31,445	11,926
Miscellaneous revenues	25	25
Total general revenues	7,851,987	7,684,824
Change in Net Position	2,498,788	2,262,593
Net position, beginning of year	20,087,572	17,824,979
Net position, end of year	\$ 22,586,360	20,087,572

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
BALANCE SHEETS -
GOVERNMENTAL FUNDS
June 30, 2018 with Comparative 2017 Totals**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Totals 2018	Totals 2017
ASSETS						
Cash and cash equivalents	\$ 4,564,282	-	3,000,160	4,135,586	11,700,028	9,873,002
Investments	1,284,217	-	-	-	1,284,217	1,267,091
Receivables						
Mill levy receivable, net of allowance	-	435,278	-	383,340	818,618	667,242
Interest	505	-	-	-	505	1,708
Prepaid expenses	8,668	-	-	-	8,668	8,195
Total assets	\$ 5,857,672	435,278	3,000,160	4,518,926	13,812,036	11,817,238
LIABILITIES						
Accounts payable	\$ 897	-	-	-	897	635
Due to Artesia General Hospital	-	435,278	-	-	435,278	350,689
Total liabilities	897	435,278	-	-	436,175	351,324
Deferred Inflows of Resources						
Unavailable revenue-levied taxes	-	14,715	-	14,212	28,927	66,675
Total deferred inflows of resources	-	14,715	-	14,212	28,927	66,675
Fund Balances						
Nonspendable	8,668	-	-	-	8,668	8,195
Restricted:						
Debt service	-	-	-	4,504,714	4,504,714	3,830,759
Capital projects	-	-	3,000,160	-	3,000,160	1,499,283
Assigned	-	-	-	-	-	5,088
Unassigned	5,848,107	(14,715)	-	-	5,833,392	6,055,914
Total fund balance	5,856,775	(14,715)	3,000,160	4,504,714	13,346,934	11,399,239
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,857,672	435,278	3,000,160	4,518,926	13,812,036	11,817,238

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
BALANCE SHEETS -
GOVERNMENTAL FUNDS
June 30, 2017**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Government al Funds
ASSETS					
Cash and cash equivalents	\$ 4,826,749	-	1,499,283	3,546,970	9,873,002
Investments	1,267,091	-	-	-	1,267,091
Receivables					
Mill levy receivable, net of allowance	-	350,689	-	316,553	667,242
Interest	1,708	-	-	-	1,708
Prepaid expenses	8,195	-	-	-	8,195
Total assets	\$ 6,103,743	350,689	1,499,283	3,863,523	11,817,238
LIABILITIES					
Accounts payable	\$ 635	-	-	-	635
Due to Artesia General Hospital	-	350,689	-	-	350,689
Total liabilities	635	350,689	-	-	351,324
Deferred Inflows of Resources					
Unavailable revenue-levied taxes	-	33,911	-	32,764	66,675
Total deferred inflows of resources	-	33,911	-	32,764	66,675
Fund Balances					
Nonspendable	8,195	-	-	-	8,195
Restricted:					
Debt service	-	-	-	3,830,759	3,830,759
Capital projects	-	-	1,499,283	-	1,499,283
Assigned	5,088	-	-	-	5,088
Unassigned	6,089,825	(33,911)	-	-	6,055,914
Total fund balance	6,103,108	(33,911)	1,499,283	3,830,759	11,399,239
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,103,743	350,689	1,499,283	3,863,523	11,817,238

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
RECONCILIATION OF THE BALANCE SHEETS TO THE STATEMENTS OF NET POSITION -
GOVERNMENTAL FUNDS
June 30, 2018 and 2017**

	2018	2017
Amounts reported for government activities in the statement of net position are different because:		
Fund balances - total governmental fund	\$ 13,346,934	11,399,239
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	26,979,486	28,863,513
Certain tax collections are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds	28,927	66,675
Accrued interest is not due and payable with current financial resources and therefore is not reported in the funds.	(245,068)	(269,546)
Some liabilities, including bonds payable and bond premiums, are not due and payable in this current period and therefore are not reported in the funds:		
General obligation bonds	<u>(17,523,919)</u>	<u>(19,972,309)</u>
Total net position	<u>\$ 22,586,360</u>	<u>20,087,572</u>

See Notes to Financial Statements.

ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2018 with Comparative 2017 Totals

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Totals 2018	Totals 2017
REVENUES						
Mill levy	\$ -	4,187,018	-	3,671,247	7,858,265	7,647,597
Lease income	1,305,873	-	-	-	1,305,873	1,278,380
Interest	25,322	-	877	5,245	31,444	12,754
Miscellaneous	25	-	-	-	25	25
Total revenues	1,331,220	4,187,018	877	3,676,492	9,195,607	8,938,756
EXPENDITURES						
Current						
General government	59,777	4,167,822	-	-	4,227,599	4,122,822
Capital outlay	17,776	-	-	-	17,776	300,453
Principal	-	-	-	2,385,000	2,385,000	2,315,000
Interest	-	-	-	617,537	617,537	682,500
Total expenditures	77,553	4,167,822	-	3,002,537	7,247,912	7,420,775
Excess (deficiency) of revenues over expenditures	1,253,667	19,196	877	673,955	1,947,695	1,517,981
OTHER FINANCING SOURCES (USES)						
Net transfers in (out)	(1,500,000)	-	1,500,000	-	-	-
Net change in fund balances	(246,333)	19,196	1,500,877	673,955	1,947,695	1,517,981
Fund balance - beginning	6,103,108	(33,911)	1,499,283	3,830,759	11,399,239	9,881,258
Fund balance - ending	\$ 5,856,775	(14,715)	3,000,160	4,504,714	13,346,934	11,399,239

See Notes to Financial Statements.

ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Mill levy	\$ -	4,054,561	-	3,593,036	7,647,597
Lease income	1,278,380	-	-	-	1,278,380
Interest	8,478	-	830	3,446	12,754
Miscellaneous	25	-	-	-	25
Total revenues	1,286,883	4,054,561	830	3,596,482	8,938,756
EXPENDITURES					
Current					
General government	59,097	4,063,725	-	-	4,122,822
Capital outlay	-	-	300,453	-	300,453
Principal	-	-	-	2,315,000	2,315,000
Interest	-	-	-	682,500	682,500
Total expenditures	59,097	4,063,725	300,453	2,997,500	7,420,775
Net change in fund balances	1,227,786	(9,164)	(299,623)	598,982	1,517,981
Fund balance - beginning	4,875,322	(24,747)	1,798,906	3,231,777	9,881,258
Fund balance - ending	\$ 6,103,108	(33,911)	1,499,283	3,830,759	11,399,239

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017**

	2018	2017
Amounts reported for government activities in the statement of activities are different because:		
Net change in fund balances - total government funds	\$ 1,947,695	1,517,981
<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	17,776	300,453
Capitalized interest	-	5,286
Depreciation and amortization	(1,901,803)	(2,001,396)
<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	(37,748)	25,277
<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 for governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of premiums, discount, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities</p>		
Change in accrued interest	24,478	29,657
Amortization of bond premiums	63,390	70,335
Principal payments on bonds	2,385,000	2,315,000
Change in net position of government activities	\$ 2,498,788	2,262,593

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL -
GENERAL FUND
Year Ended June 30, 2018**

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Lease income	\$ 1,285,103	\$ 1,305,874	\$ 1,305,874	\$ -
Interest	8,575	26,329	26,329	-
Miscellaneous	-	25	25	-
Total revenues	<u>1,293,678</u>	<u>1,332,228</u>	<u>1,332,228</u>	<u>-</u>
EXPENDITURE				
General government	61,050	77,764	77,764	-
Total expenditure	<u>61,050</u>	<u>77,764</u>	<u>77,764</u>	<u>-</u>
Net change in fund balances	<u>\$ 1,232,628</u>	<u>\$ 1,254,464</u>	<u>\$ 1,254,464</u>	<u>\$ -</u>

Net change in fund balances (Non-GAAP)	\$ 1,254,464
Change in:	
Accrued interest receivable	(1,203)
Other receivable	-
Prepaid expenses	473
Accounts payable	(262)
Interest income budgeted in special revenue fund but recorded in general fund	196
Other (rounding)	(1)
Excess (deficiency) of revenues over expenditures (GAAP)	<u>\$ 1,253,667</u>

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL -
GENERAL FUND
Year Ended June 30, 2017**

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Lease income	\$ 1,271,700	\$ 1,286,546	\$ 1,286,546	\$ -
Interest	5,050	6,703	6,703	-
Miscellaneous	60	25	25	-
Total revenues	<u>1,276,810</u>	<u>1,293,274</u>	<u>1,293,274</u>	<u>-</u>
EXPENDITURE				
General government	64,698	67,513	67,513	-
Total expenditure	<u>64,698</u>	<u>67,513</u>	<u>67,513</u>	<u>-</u>
Net change in fund balances	<u>\$ 1,212,112</u>	<u>\$ 1,225,761</u>	<u>\$ 1,225,761</u>	<u>\$ -</u>

Net change in fund balances (Non-GAAP)	\$ 1,225,761
Change in:	
Accrued interest receivable	1,580
Other receivable	(8,167)
Prepaid expenses	(422)
Accounts payable	8,837
Interest income budgeted in special revenue fund but recorded in general fund	196
Other (rounding)	<u>1</u>
Excess (deficiency) of revenues over expenditures (GAAP)	<u>\$ 1,227,786</u>

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL -
SPECIAL REVENUE FUND
Year Ended June 30, 2018**

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Mill levy tax	\$ 3,725,000	\$ 4,083,233	\$ 4,083,233	\$ -
Interest	200	196	196	-
Total revenues	<u>3,725,200</u>	<u>4,083,429</u>	<u>4,083,429</u>	<u>-</u>
EXPENDITURE				
General government	3,725,000	4,083,233	4,083,233	-
Total expenditure	<u>3,725,000</u>	<u>4,083,233</u>	<u>4,083,233</u>	<u>-</u>
Net change in fund balances	<u>\$ 200</u>	<u>\$ 196</u>	<u>\$ 196</u>	<u>\$ -</u>

Net change in fund balances (Non-GAAP)	\$ 196
Change in:	
Unavailable revenue - levied taxes	19,196
Interest income budgeted in special revenue fund but recorded in general fund	<u>(196)</u>
Excess (deficiency) of revenues over expenditures (GAAP)	<u>\$ 19,196</u>

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL -
SPECIAL REVENUE FUND
Year Ended June 30, 2017**

	Budget Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Mill levy tax	\$ 3,365,600	\$ 3,983,190	\$ 3,983,190	\$ -
Interest	310	196	196	-
Total revenues	<u>3,365,910</u>	<u>3,983,386</u>	<u>3,983,386</u>	<u>-</u>
EXPENDITURE				
General government	3,365,600	3,983,190	3,983,190	-
Total expenditure	<u>3,365,600</u>	<u>3,983,190</u>	<u>3,983,190</u>	<u>-</u>
Net change in fund balances	<u>\$ 310</u>	<u>\$ 196</u>	<u>\$ 196</u>	<u>\$ -</u>

Net change in fund balances (Non-GAAP)	\$ 196
Change in:	
Unavailable revenue - levied taxes	(9,164)
Interest income budgeted in special revenue fund but recorded in general fund	<u>(196)</u>
Net change in fund balances (GAAP)	<u>\$ (9,164)</u>

See Notes to Financial Statements.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. 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.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. 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.

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.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 as authorized by Chapter 4, Article 48A-3.1, 1978 NMSA 1978.
- The Capital Projects Fund is used to account for the financial resources used for the acquisition and construction of land 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 cash equivalents consist of checking accounts and a certificate of deposit and is maintained at a local financial institution. The certificate of deposit is carried at fair value, which approximates cost.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets, net of accumulated depreciation. 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. Items on the capital asset listing that were capitalized under previous lower thresholds can be removed from the capital asset listing.

Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method. Useful lives are assigned using industry guidelines published by the American Hospital Association and typically range from 3 to 40 years.

Donor-Restricted Funds. Contributed funds, the use of which is specified by donors or grantors, are recorded as additions to restricted net position. Resources restricted by donors for specific operating purposes are reported in other operating revenue to the extent used within the period. Restricted amounts are released from restricted fund balance when the restriction imposed by the donor has been satisfied.

Mill Levy. An operating mill levy, approved by the voters of Eddy County in August 2006, expired in 2017, and was renewed for the tax years 2018 to 2021. A General Obligation (GO) bond mill levy, approved by voters of Eddy County in November 2004, August 2006 and August 2013, will expire in 2025. 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.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances. The District reports fund balances in the following categories:

- Non-spendable — amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted — amounts that are restricted to specific purposes either externally imposed by creditors, grantors or laws or regulations or imposed by law through constitutional provisions or enabling legislation.
- Committed — amounts that can only be used for specific purposes pursuant to formal action of the government's highest decision making authority.
- Assigned — amounts that are intended to be used for specific purposes, but are neither restricted nor committed.
- Unassigned — remaining general funds balances not restricted, committed, or assigned.

The District's Board of Trustees is its highest level of decision-making authority. In order to establish committed fund balances, the Board would be required to take formal action, such as passing a Board resolution. Management of the District is authorized to designate fund balances that the District intends to use for specific purposes. 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.

Nonspendable Fund Balance: At June 30, 2018 and 2017, the District had \$8,668 and \$8,195, respectively, of nonspendable fund balances from the prepayments of expenditures.

Assigned Fund Balance: At June 30, 2017 the general fund assigned balance of \$5,088 represents an amount equal to 1/12 of budgeted general fund expenditures for the year ended June 30, 2018. This reserve is optional for Special Districts.

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.

Net Position. The governmental activities in the government-wide financial statements utilize a net position presentation which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, in accordance with Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* issued by the Governmental Accounting Standards Board (GASB 63). Net position is displayed in three components as follows:

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
- 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.
- C. Unrestricted Net Position: Net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The government-wide statement of net position reports \$7,519,086 and \$5,362,806 for the years ended June 30, 2018 and 2017, respectively, which has been restricted by enabling legislation.

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

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.

Deposit Investments. The District holds an investment in a certificate of deposit whose maturity exceeds 90 days. This investment is considered to be a level 1 investment and is recorded at fair value which approximates cost. .

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

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. 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. The budgetary information presented in these financial statements has been properly amended by Board of Trustees in accordance with the above procedures.

These budgets are prepared on the non-GAAP cash budgetary basis and the legal level of budgetary control is at the fund level. 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 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 years ended June 30, 2018 and 2017 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.

Recent Accounting Pronouncements.

In August 2018, the GASB issued Statement No. 90, *Majority Interests in an amendment of GASB Statements No. 14 and No. 6*. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the District.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement is not applicable to the District.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This statement is not applicable to the District.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2017, the GASB issued Statement No. 87, *Leases*. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the District.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the District.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the District.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This statement is not applicable to the District.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. This statement is not applicable to the District.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the District.

Subsequent Events. Management has evaluated subsequent events through October 15, 2018, the date which the financial statements were available to be issued.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

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, 2018 and 2017.

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 statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2018 and 2017, the District’s deposits were adequately collateralized and in compliance with state law.

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.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s practice is to invest in certificates of deposits with maturities of less than five years.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

	First American	Western Bank	Total
Year Ended June 30, 2018			
Total amount of deposits	\$ 11,700,028	1,284,217	12,984,245
FDIC Coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Total uninsured public funds	<u>\$ 11,450,028</u>	<u>1,034,217</u>	<u>12,484,245</u>
Collateralized by securities held by the Pledging institution or by its trust department or agent in other than the District’s name	<u>\$ 11,619,650</u>	<u>1,996,254</u>	<u>13,615,904</u>
Total uninsured and uncollateralized	<u>\$ -</u>	<u>-</u>	<u>-</u>
Collateral requirement (50% of uninsured Public funds)	\$ 5,725,014	517,109	6,242,123
Pledged securities	<u>11,619,650</u>	<u>1,996,254</u>	<u>13,615,904</u>
Total over (under) collateralization	<u>\$ 5,894,636</u>	<u>1,479,145</u>	<u>7,373,781</u>

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

	First American	Western Bank	Total
Year Ended June 30, 2017			
Total amount of deposits	\$ 9,873,002	1,267,091	11,140,093
FDIC Coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Total uninsured public funds	<u>\$ 9,623,002</u>	<u>1,017,091</u>	<u>10,640,093</u>
Collateralized by securities held by the Pledging institution or by its trust department or agent in other than the District's name	<u>\$ 12,804,974</u>	<u>2,289,710</u>	<u>15,094,484</u>
Total uninsured and uncollateralized	<u>\$ -</u>	<u>-</u>	<u>-</u>
Collateral requirement (50% of uninsured Public funds)	\$ 4,811,501	508,546	5,320,047
Pledged securities	<u>12,804,974</u>	<u>2,289,710</u>	<u>15,094,484</u>
Total over (under) collateralization	<u>\$ 7,993,473</u>	<u>1,781,164</u>	<u>9,774,437</u>

NOTE 3. 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 \$4,187,018 and \$4,054,561 for the years ended June 30, 2018 and 2017, respectively, 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 2018 to 2021.

The District recorded General Obligation Bond mill levy revenues of \$3,671,247 and \$3,593,036 for the years ended June 30, 2018 and 2017, 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 2025.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 3. MILL LEVY TAXES RECEIVABLE (CONTINUED)

Mill levy receivable consists of the following at June 30:

	2018	2017
Mill levy receivable:		
Ad valorem	\$ 117,531	169,542
Oil and gas	718,658	499,061
Less: allowance for uncollectible amounts	<u>(17,571)</u>	<u>(1,361)</u>
Total mill levy receivable	<u>\$ 818,618</u>	<u>667,242</u>

NOTE 4. CAPITAL ASSETS

Capital assets, additions, retirements, and balances for the year ended June 30, 2018 are as follows:

	Beginning Balance June 30, 2017	Additions	Disposals/ Retirements	Adjustments/ Transfers	Ending Balance June 30, 2018
<i>Non-depreciable assets:</i>					
Land	\$ 346,052	-	-	-	346,052
Art work	<u>1,835</u>	-	-	-	<u>1,835</u>
Total	<u>347,887</u>	-	-	-	<u>347,887</u>
<i>Depreciated assets</i>					
Land improvements	1,820,084	17,776	-	-	1,837,860
Buildings & Improvements	45,955,950	-	-	-	45,955,950
Equipment	<u>10,184,868</u>	-	-	-	<u>10,184,868</u>
Total	<u>57,960,902</u>	<u>17,776</u>	-	-	<u>57,978,678</u>
<i>Accumulated depreciation</i>					
Land improvements	(1,207,548)	(44,620)	-	-	(1,252,168)
Buildings & Improvements	(18,335,150)	(1,797,777)	-	-	(20,132,927)
Equipment	<u>(9,902,578)</u>	<u>(59,406)</u>	-	-	<u>(9,961,984)</u>
Total	<u>(29,445,276)</u>	<u>(1,901,803)</u>	-	-	<u>(31,347,079)</u>
Total capital assets being depreciated, net	<u>28,515,626</u>	<u>(1,884,027)</u>	-	-	<u>26,631,599</u>
Total capital assets, net	<u>\$ 28,863,513</u>	<u>(1,884,027)</u>	-	-	<u>26,979,486</u>

Depreciation expense for the year ended was \$1,901,803 and has been charged to the general government function.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 4. CAPITAL ASSETS (CONTINUED)

Capital assets, additions, retirements, and balances for the year ended June 30, 2017 are as follows:

	Beginning Balance June 30, 2016	Additions	Disposals/ Retirements	Adjustments/ Transfers	Ending Balance June 30, 2017
<i>Non-depreciable assets:</i>					
Land	\$ 346,052	-	-	-	346,052
Art work	1,835	-	-	-	1,835
Total	<u>347,887</u>	-	-	-	<u>347,887</u>
<i>Depreciated assets</i>					
Land improvements	1,820,084	-	-	-	1,820,084
Buildings & Improvements	45,650,211	305,739	-	-	45,955,950
Equipment	10,184,868	-	-	-	10,184,868
Total	<u>57,655,163</u>	<u>305,739</u>	-	-	<u>57,960,902</u>
<i>Accumulated depreciation</i>					
Land improvements	(1,129,417)	(78,131)	-	-	(1,207,548)
Buildings & Improvements	(16,527,952)	(1,807,198)	-	-	(18,335,150)
Equipment	(9,786,511)	(116,067)	-	-	(9,902,578)
Total	<u>(27,443,880)</u>	<u>(2,001,396)</u>	-	-	<u>(29,445,276)</u>
Total capital assets being depreciated, net	<u>30,211,283</u>	<u>(1,695,657)</u>	-	-	<u>28,515,626</u>
Total capital assets, net	<u>\$ 30,559,170</u>	<u>(1,695,657)</u>	-	-	<u>28,863,513</u>

Depreciation expense for the year ended was \$2,001,396 and is charged to the general government function.

NOTE 5. LONG-TERM DEBT

A schedule of changes in the District's General Obligation Bonds for 2018 follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
2006 GO Bond	\$ 2,025,000	-	650,000	1,375,000	675,000
2006 Premium	399	-	195	204	-
2012 GO Bond	4,510,000	-	1,475,000	3,035,000	1,500,000
2012 Premium	116,533	-	59,142	57,391	-
2013 GO Bond	12,660,000	-	260,000	12,400,000	270,000
2013 Premium	660,377	-	4,053	656,324	-
Total	<u>\$ 19,972,309</u>	-	<u>2,448,390</u>	<u>17,523,919</u>	<u>2,445,000</u>

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 5. LONG-TERM DEBT (CONTINUED)

A schedule of changes in the District's General Obligation Bonds for 2017 follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
2006 GO Bond	\$ 2,650,000	-	625,000	2,025,000	650,000
2006 Premium	599	-	200	399	-
2012 GO Bond	5,935,000	-	1,425,000	4,510,000	1,475,000
2012 Premium	180,630	-	64,097	116,533	-
2013 GO Bond	12,925,000	-	265,000	12,660,000	260,000
2013 Premium	666,415	-	6,038	660,377	-
Total	\$ 22,357,644	-	2,385,335	19,972,309	2,385,000

Bonds outstanding at June 30, 2018, 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:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 675,000	38,906	713,906
2020	700,000	13,125	713,125
Totals	\$ 1,375,000	52,031	\$ 1,427,031

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.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 5. LONG-TERM DEBT (CONTINUED)

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

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,500,000	45,700	1,545,700
2020	1,535,000	15,350	1,550,350
Totals	<u>\$ 3,035,000</u>	<u>61,050</u>	<u>\$ 3,096,050</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:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 270,000	473,200	743,200
2020	270,000	467,125	737,125
2021	2,000,000	423,750	2,423,750
2022	2,000,000	353,750	2,353,750
2023	2,000,000	283,750	2,283,750
2024 - 2026	5,860,000	381,125	6,241,125
Totals	<u>\$ 12,400,000</u>	<u>2,382,700</u>	<u>\$ 14,782,700</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 6. 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.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 7. LEASE INCOME

Effective November, 2015, covering the period to June 30, 2020, the District entered into a facility and equipment lease with Artesia General Hospital (AGH). The lease calls for annual rent of \$915,600. The monthly rental payments shall increase (but not decrease) each year by an amount equal to the percentage increase, if any, in the United States Consumer Price Index – All Urban Consumers. An additional lease to AGH began in June 2016 requiring annual payments of \$294,000 through June 2018 and increasing to \$306,000 through June 2020. 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.

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 agreement was approved by the State Board of Finance on March 15, 2016. The lease term is for 10 years from the date Yucca Dental P.C. opens for business in the leased premises. Rental payments commenced April 2016 in the amount of \$54,000 per year and increasing by 5% every two years.

Minimum future rental payments under non-cancellable operating leases are as follows for the years ending June 30:

	Principal
2019	\$ 1,329,291
2020	1,330,009
2021	59,606
2022	60,360
2023	62,623
2024 – 2026	<u>178,555</u>
Totals	<u>\$ 3,020,444</u>

NOTE 8. OTHER REQUIRED DISCLOSURES

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

	2018	2017
Special Revenue Fund - Major	\$ 14,715	33,911

Excess of expenditures over budget. The District did not have any funds that maintained expenditures in excess of authorized budget for the years ended June 30, 2018 or 2017.

Designated cash appropriations in excess of available balance. The District did not have any funds in which budgeted expenditures exceeded budgeted revenues (after prior-year cash balance was used to balance the budget) for the years ended June 30, 2018 or 2017.

**ARTESIA SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE 9. 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.

SUPPLEMENTAL INFORMATION

**ARTESIA SPECIAL HOSPITAL DISTRICT
SCHEDULES OF COLLATERAL PLEDGED BY DEPOSITORY -
PUBLIC FUND
June 30, 2018 and 2017**

Name of Depository and Description of Pledged Collateral	Fair Market Value 30-Jun-18	Fair Market Value 30-Jun-17
First American Bank		
Lea Cnty Pub SD#8 NM 19 Due 1/15/2019 CUSIP #521513BT7	\$ 260,580	263,523
Alamogordo NM 28 Due 08/01/2028 CUSIP #011446GB1	309,093	315,054
Albuquerque SD 12 NM 20 Due 08/01/2020 CUSIP #013595LK7	934,173	974,421
Albuquerque SD 12 NM 22 Due 08/01/2022 CUSIP #013595LM3	1,335,139	1,374,048
Grants ETC SD#1 NM 20 Due 4/15/2020 CUSIP #388240FS7	444,263	450,994
Estancia MUN SD #7 NM 21 Due 06/15/2021 CUSIP #297326EF3	174,982	182,437
Texico SD #2 NM 21 Due 08/01/2021 CUSIP #883005CH1	85,167	85,278
Gadsden ISD #16 NM 23 Due 08/15/2023 CUSIP #362550MG7	998,995	1,035,470
Hobbs SD #16 NM 24 Due 04/15/2024 CUSIP #433866DR8	800,303	833,963
Espanola SD#55 NM 26 Due 09/01/2026 CUSIP #29662RBB3	1,987,003	2,110,901
FHLMC 15YR Due 05-01-2027 CUSIP #3128Q0GL5	511,914	-
Los Lunas SD #1-A-REF NM 27 Due 07/15/2027 CUSIP #545562rp7	449,181	-
Dona Ana CO NM 28 Due 09/01/2028 CUSIP #257579DA7	409,392	-
Gallup McKinley SD#1 NM 21 Due 08/01/2021 CUSIP #364010NW4	-	401,360
Belen Cons SD #2 NM22 Due 08/01/2022 CUSIP #077581NG7	-	752,798
Clovis SD I-BLDG NM 22 Due 08/01/2022 CUSIP #189414GQ2	-	802,440
Clovis SD I-BLDG NM 23 Due 08/01/2023 CUSIP #362550MG7	-	777,402
FHLMC 15YR Due 01-01-2029 CUSIP #3128MEEH0	1,182,135	-
GNMA II 3x1 Due 10/20/2040 CUSIP #36225E5F5	300,121	453,798
GNMA II 3x1 Due 11/20/2040 CUSIP #36225E5X6	367,684	563,098
GNMA II 5x1 Due 1/20/2041 CUSIP #36225FAN9	336,659	428,206
GNMA II 7x1 Due 10/20/2041 CUSIP #36225FJV2	312,716	450,169
GNMA II 5x1 Due 04/20/2042 CUSIP #36179MBB5	420,150	549,614
	<u>\$ 11,619,650</u>	<u>12,804,974</u>

The custodian of the pledged securities is the Federal Home Loan Bank Dallas, TX

**ARTESIA SPECIAL HOSPITAL DISTRICT
SCHEDULES OF COLLATERAL PLEDGED BY DEPOSITORY -
PUBLIC FUND
June 30, 2018 and 2017**

Name of Depository and Description of Pledged Collateral	Fair Market Value 30-Jun-18	Fair Market Value 30-Jun-17
Western Bank		
FHLMC - Pool# C91764 Due 05/01/2034 CUSIP #3128P75Z2	\$ 1,173,472	1,471,159
Vandalia Butler , OH City Due 12/01/2032 CUSIP #92166LJ9	276,788	-
Hobbs NM School District Due 04/15/2024 CUSIP #433866DR8	452,931	453,917
Albuquerque N Mex Mun Sch Dist Due 08/01/2017 CUSIP #013595Q10	-	250,456
FNMA - Pool#: MA1237 Due 11/01/2032 CUSIP #31418ALT3	93,063	114,178
	<u>\$ 1,996,254</u>	<u>2,289,710</u>

The custodian of the pledged securities is the Federal Home Loan Bank Dallas, TX

ARTESIA SPECIAL HOSPITAL DISTRICT
SCHEDULES OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2018

Deposit Type	First American Bank	Western Bank	Total
Operational - NOW checking	\$ 1,730,777	\$ -	\$ 1,730,777
Regular - MMF Checking	2,836,388	-	2,836,388
Operational Mill Levy	1,384	-	1,384
Bond sinking fund - MMF checking	4,135,586	-	4,135,586
General needs- NOW checking	-	-	-
Capital Projects - NOW checking	3,000,160	-	3,000,160
Certificate of deposit	-	1,284,217	1,284,217
Total deposits	11,704,295	1,284,217	12,988,512
Reconciling items:			
Outstanding checks	(4,267)	-	(4,267)
Total June 30, 2018	\$ 11,700,028	\$ 1,284,217	\$ 12,984,245
Reconciliation to the June 30, 2018			
Statement of Net Position			
Unrestricted cash and cash equivalents			\$ 7,564,442
Investments			1,284,217
Cash restricted by bond indenture for debt service			4,135,586
Total			\$ 12,984,245

ARTESIA SPECIAL HOSPITAL DISTRICT
SCHEDULES OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2017

Deposit Type	First American Bank	Western Bank	Total
Operational - NOW checking	\$ 504,455	\$ -	\$ 504,455
Regular - MMF Checking	4,327,760	-	4,327,760
Operational Mill Levy	1,189	-	1,189
Bond sinking fund - MMF checking	3,546,970	-	3,546,970
Capital Projects - NOW checking	1,499,283	-	1,499,283
Certificate of deposit	-	1,267,091	1,267,091
Total deposits	9,879,657	1,267,091	11,146,748
Reconciling items:			
Outstanding checks	(6,655)	-	(6,655)
Total June 30, 2017	\$ 9,873,002	\$ 1,267,091	\$ 11,140,093
Reconciliation to the June 30, 2017			
Statement of Net Position			
Unrestricted cash and cash equivalents			\$ 6,326,032
Investments			1,267,091
Cash restricted by bond indenture for debt service			3,546,970
Total			\$ 11,140,093

COMPLIANCE SECTION



Service plus value, it all adds up.

6200 Uptown Blvd., NE, Suite 400
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**Independent Auditor's 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***

To the Board of Trustees
Artesia Special Hospital District
Artesia, New Mexico
and
Wayne Johnson, State Auditor

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 comparisons 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. 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 from 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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ricci & Company LLC

Albuquerque, New Mexico
October 15, 2018

**ARTESIA SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018**

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

**ARTESIA SPECIAL HOSPITAL
DISTRICT EXIT CONFERENCE
For the Year Ended June 30, 2018**

Exit Conference and Board of Trustees Presentation

The contents of this report were discussed on October 15, 2018. The following individuals were in attendance.

**Artesia Special Hospital
District** Dennis Maupin

Chairman

Ricci & Company
Dock Livingston, CPA

Audit Manager

Financial Statement Preparation

The District's independent public accountants prepared the accompanying basic financial statements; however, the District is responsible for the basic financial statement and disclosure content. The District's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.