

Artesia Special Hospital District

FINANCIAL STATEMENTS

June 30, 2019 and 2018



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RIGGS &
INGRAM

CPAs and Advisors

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Introductory Section

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Artesia Special Hospital District
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June 30, 2019

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**Artesia Special Hospital District
Official Roster
June 30, 2019**

| <u>Name</u> | <u>Board of Trustees</u> | <u>Title</u> |
|-------------------|--------------------------|---------------|
| Dennis P. Maupin | | Chairman |
| Mike Deans | | Vice-Chairman |
| Jef Butcher | | Secretary |
| Perry Conner | | Treasurer |
| Jarrold L. Moreau | | Member |

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Financial Section

INDEPENDENT AUDITORS' REPORT

Brian S. Colón
New Mexico State Auditor
Artesia Special Hospital District
Board of Trustees
Artesia, New Mexico

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 year ended June 30, 2019, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.

Opinions

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 Artesia Special Hospital District, as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the District as of and for the year ended June 30, 2018 were audited by other auditors whose report, dated October 15, 2018, expressed an unmodified opinion on those statements.

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 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, Schedules of Deposits, Schedules of Collateral Pledged by Depository for Public Funds, as required by Section 2.2.2 NMAC, and other disclosures are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedules of Deposits and Schedules of Collateral Pledged by Depository for Public Funds 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Deposits and Schedules of Collateral Pledged by Depository for Public Funds is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section and other disclosures have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019, 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 solely 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 effectiveness of the District's 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 Artesia Special Hospital District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs, & Ingram, LLC
Albuquerque, New Mexico
October 15, 2019

Financial Statements

Artesia Special Hospital District Statements of Net Position

| <i>June 30,</i> | Governmental Activities | |
|---|--------------------------------|---------------|
| | 2019 | 2018 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,601,408 | \$ 7,564,442 |
| Investments | 1,300,683 | 1,284,217 |
| Receivables: | | |
| Mill levy receivable, net | 698,421 | 818,618 |
| Interest receivable | 5,602 | 505 |
| Prepaid expenses | 8,509 | 8,668 |
| Total current assets | 7,614,623 | 9,676,450 |
| Non-current assets | | |
| Cash restricted by bond indenture for debt service | 4,575,631 | 4,135,586 |
| Capital assets, net | | |
| Non-depreciable capital assets | 3,650,370 | 347,887 |
| Depreciable capital assets | 24,726,917 | 26,631,599 |
| Total current assets | 32,952,918 | 31,115,072 |
| Total assets | \$ 40,567,541 | \$ 40,791,522 |
| Liabilities and net position | | |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 1,920 | \$ 897 |
| Due to Artesia General Hospital | 421,203 | 435,278 |
| Accrued interest | 219,771 | 245,068 |
| Current portion of long-term debt | 2,505,000 | 2,445,000 |
| Total current liabilities | 3,147,894 | 3,126,243 |
| Long-term liabilities | | |
| Long-term debt, net of current maturities | 11,860,000 | 14,365,000 |
| Bond premium, net of accumulated amortization of \$473,623 and \$414,825 | 655,121 | 713,919 |
| Total long-term liabilities | 12,515,121 | 15,078,919 |
| Net position | | |
| Net investment in capital assets | 13,357,166 | 9,455,567 |
| Restricted for: | | |
| Debt service | 4,805,629 | 4,518,926 |
| Capital projects | 2,489,939 | 3,000,160 |
| Unrestricted | 4,251,792 | 5,611,707 |
| Total net position | 24,904,526 | 22,586,360 |
| Total liabilities and net position | \$ 40,567,541 | \$ 40,791,522 |

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

Artesia Special Hospital District Statements of Activities

| <i>For the Years Ended June 30,</i> | Governmental Activities | |
|-------------------------------------|--------------------------------|---------------|
| | 2019 | 2018 |
| Program expenses | | |
| General government | \$ 6,808,175 | \$ 6,129,404 |
| Interest | 431,786 | 529,668 |
| Total program expenses | 7,239,961 | 6,659,072 |
| Program revenue | | |
| Lease income | 1,347,663 | 1,305,873 |
| Total program revenue | 1,347,663 | 1,305,873 |
| Net program (expense) | (5,892,298) | (5,353,199) |
| General revenue | | |
| Mill levy tax | 8,170,421 | 7,820,517 |
| Interest income | 39,962 | 31,445 |
| Miscellaneous revenue | 81 | 25 |
| Total general revenues | 8,210,464 | 7,851,987 |
| Change in net position | 2,318,166 | 2,498,788 |
| Net position, beginning of year | 22,586,360 | 20,087,572 |
| Net position, end of year | \$ 24,904,526 | \$ 22,586,360 |

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

Artesia Special Hospital District
Balance Sheets
Governmental Funds
June 30, 2019

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|--|---------------------|----------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 3,110,883 | \$ - | \$ 2,490,525 |
| Investments | 1,300,683 | - | - |
| Receivables: | | | |
| Mill levy receivable, net of allowance | - | 421,203 | - |
| Interest | 5,602 | - | - |
| Prepaid expenses | 8,509 | - | - |
| Total assets | \$ 4,425,677 | \$ 421,203 | \$ 2,490,525 |
| Liabilities, deferred inflows of resources, and fund balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,334 | \$ - | \$ 586 |
| Due to Artesia General Hospital | - | 421,203 | - |
| Total liabilities | 1,334 | 421,203 | 586 |
| Deferred inflows of resources | | | |
| Unavailable revenue - levied taxes | - | 69,331 | - |
| Total deferred inflows of resources | - | 69,331 | - |
| Fund balances | | | |
| Nonspendable: | | | |
| Prepaid expenses | 8,509 | - | - |
| Spendable | | | |
| Restricted for: | | | |
| Debt service | - | - | - |
| Capital projects | - | - | 2,489,939 |
| Unassigned | 4,415,834 | (69,331) | - |
| Total fund balances | 4,424,343 | (69,331) | 2,489,939 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 4,425,677 | \$ 421,203 | \$ 2,490,525 |

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

| Debt Service Fund | | Total Governmental Funds | |
|--------------------------|------------------|---------------------------------|-------------------|
| \$ | 4,575,631 | \$ | 10,177,039 |
| | - | | 1,300,683 |
| | 277,218 | | 698,421 |
| | - | | 5,602 |
| | - | | 8,509 |
| \$ | 4,852,849 | \$ | 12,190,254 |
| <hr/> | | | |
| \$ | - | \$ | 1,920 |
| | - | | 421,203 |
| | - | | 423,123 |
| <hr/> | | | |
| | 47,220 | | 116,551 |
| | 47,220 | | 116,551 |
| <hr/> | | | |
| | - | | 8,509 |
| | 4,805,629 | | 4,805,629 |
| | - | | 2,489,939 |
| | - | | 4,346,503 |
| | 4,805,629 | | 11,650,580 |
| <hr/> | | | |
| \$ | 4,852,849 | \$ | 12,190,254 |
| <hr/> | | | |

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

Artesia Special Hospital District
Balance Sheets
Governmental Funds
June 30, 2018

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|--|---------------------|----------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 4,564,282 | \$ - | \$ 3,000,160 |
| Investments | 1,284,217 | - | - |
| Receivables: | | | |
| Mill levy receivable, net of allowance | - | 435,278 | - |
| Interest | 505 | - | - |
| Prepaid expenses | 8,668 | - | - |
| Total assets | \$ 5,857,672 | \$ 435,278 | \$ 3,000,160 |
| Liabilities, deferred inflows of resources, and fund balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 897 | \$ - | \$ - |
| Due to Artesia General Hospital | - | 435,278 | - |
| Total liabilities | 897 | 435,278 | - |
| Deferred inflows of resources | | | |
| Unavailable revenue - levied taxes | - | 14,715 | - |
| Total deferred inflows of resources | - | 14,715 | - |
| Fund balances | | | |
| Nonspendable: | | | |
| Prepaid expenses | 8,668 | - | - |
| Spendable | | | |
| Restricted for: | | | |
| Debt service | - | - | - |
| Capital projects | - | - | 3,000,160 |
| Unassigned | 5,848,107 | (14,715) | - |
| Total fund balances | 5,856,775 | (14,715) | 3,000,160 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 5,857,672 | \$ 435,278 | \$ 3,000,160 |

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

| Debt Service Fund | Total Governmental Funds |
|------------------------------|-------------------------------------|
| \$ 4,135,586 | \$ 11,700,028 |
| - | 1,284,217 |
| 383,340 | 818,618 |
| - | 505 |
| - | 8,668 |
| <u>\$ 4,518,926</u> | <u>\$ 13,812,036</u> |
| - | 897 |
| - | 435,278 |
| - | <u>436,175</u> |
| 14,212 | 28,927 |
| <u>14,212</u> | <u>28,927</u> |
| - | 8,668 |
| 4,504,714 | 4,504,714 |
| - | 3,000,160 |
| - | 5,833,392 |
| <u>4,504,714</u> | <u>13,346,934</u> |
| <u>\$ 4,518,926</u> | <u>\$ 13,812,036</u> |

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

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Artesia Special Hospital District
Reconciliation of the Governmental Funds Balance Sheets to the
Statements of Net Position

| <i>June 30,</i> | 2019 | 2018 |
|---|----------------------|----------------------|
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Fund balances - total governmental funds | \$ 11,650,580 | \$ 13,346,934 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds | 28,377,287 | 26,979,486 |
| Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the statement of activities | 116,551 | 28,927 |
| Liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Accrued interest payable | (219,771) | (245,068) |
| Bonds payable | (14,365,000) | (16,810,000) |
| Bond premium, net of accumulated amortization | (655,121) | (713,919) |
| Total net position - governmental funds | \$ 24,904,526 | \$ 22,586,360 |

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

Artesia Special Hospital District
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|---|---------------------|----------------------|-----------------------|
| Revenues | | | |
| Mill levy | \$ - | \$ 4,788,134 | \$ - |
| Lease income | 1,347,663 | - | - |
| Interest income | 28,732 | - | 2,173 |
| Miscellaneous | 81 | - | - |
| Total revenues | 1,376,476 | 4,788,134 | 2,173 |
| Expenditures | | | |
| Current: | | | |
| General Government | 58,908 | 4,842,750 | - |
| Capital outlay | - | - | 3,304,318 |
| Principal | - | - | - |
| Interest | - | - | - |
| Total expenditures | 58,908 | 4,842,750 | 3,304,318 |
| Excess (deficiency) of revenues over expenditures | 1,317,568 | (54,616) | (3,302,145) |
| Other financing sources (uses) | | | |
| Transfers in | - | - | 2,791,924 |
| Transfers (out) | (2,750,000) | - | - |
| Total other financing sources (uses) | (2,750,000) | - | 2,791,924 |
| Net change in fund balances | (1,432,432) | (54,616) | (510,221) |
| Fund balances - beginning of year | 5,856,775 | (14,715) | 3,000,160 |
| Fund balances - end of year | \$ 4,424,343 | \$ (69,331) | \$ 2,489,939 |

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

| Debt Service | | | |
|---------------------|------------------|----|-------------------|
| | Fund | | Total |
| \$ | 3,294,663 | \$ | 8,082,797 |
| | - | | 1,347,663 |
| | 9,057 | | 39,962 |
| | - | | 81 |
| | <u>3,303,720</u> | | <u>9,470,503</u> |
| | - | | 4,901,658 |
| | - | | 3,304,318 |
| | 2,445,000 | | 2,445,000 |
| | 515,881 | | 515,881 |
| | <u>2,960,881</u> | | <u>11,166,857</u> |
| | 342,839 | | (1,696,354) |
| | - | | 2,791,924 |
| | (41,924) | | (2,791,924) |
| | <u>(41,924)</u> | | - |
| | 300,915 | | (1,696,354) |
| | <u>4,504,714</u> | | <u>13,346,934</u> |
| \$ | <u>4,805,629</u> | \$ | <u>11,650,580</u> |

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

Artesia Special Hospital District
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

| | General Fund | Special Revenue Fund | Capital Projects Fund |
|---|---------------------|----------------------|-----------------------|
| Revenues | | | |
| Mill levy | \$ - | \$ 4,187,018 | \$ - |
| Lease income | 1,305,873 | - | - |
| Interest income | 25,322 | - | 877 |
| Miscellaneous | 25 | - | - |
| Total revenues | 1,331,220 | 4,187,018 | 877 |
| Expenditures | | | |
| Current: | | | |
| General Government | 59,777 | 4,167,822 | - |
| Capital outlay | 17,776 | - | - |
| Principal | - | - | - |
| Interest | - | - | - |
| Total expenditures | 77,553 | 4,167,822 | - |
| Excess (deficiency) of revenues over expenditures | 1,253,667 | 19,196 | 877 |
| Other financing sources (uses) | | | |
| Transfers in | - | - | 1,500,000 |
| Transfers (out) | (1,500,000) | - | - |
| Total other financing sources (uses) | (1,500,000) | - | 1,500,000 |
| Net change in fund balances | (246,333) | 19,196 | 1,500,877 |
| Fund balances - beginning of year | 6,103,108 | (33,911) | 1,499,283 |
| Fund balances - end of year | \$ 5,856,775 | \$ (14,715) | \$ 3,000,160 |

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

| Debt Service | | | |
|---------------------|------------------|----|-------------------|
| | Fund | | Total |
| \$ | 3,671,247 | \$ | 7,858,265 |
| | - | | 1,305,873 |
| | 5,245 | | 31,444 |
| | - | | 25 |
| | <u>3,676,492</u> | | <u>9,195,607</u> |
| | - | | 4,227,599 |
| | - | | 17,776 |
| | 2,385,000 | | 2,385,000 |
| | 617,537 | | 617,537 |
| | <u>3,002,537</u> | | <u>7,247,912</u> |
| | 673,955 | | 1,947,695 |
| | - | | 1,500,000 |
| | - | | (1,500,000) |
| | - | | - |
| | 673,955 | | 1,947,695 |
| | <u>3,830,759</u> | | <u>11,399,239</u> |
| \$ | <u>4,504,714</u> | \$ | <u>13,346,934</u> |

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

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Artesia Special Hospital District
Reconciliation of the Statements of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statements of Activities

| <i>For the Years Ended June 30,</i> | 2019 | 2018 |
|---|----------------|--------------|
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Net change in fund balances - total governmental funds | \$ (1,696,354) | \$ 1,947,695 |
| 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 expenditures | 3,304,318 | 17,776 |
| Depreciation expense | (1,906,517) | (1,901,803) |
| 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 property taxes receivable | 87,624 | (37,748) |
| 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 position. Also, governmental funds report the effect of premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities: | | |
| Increase in accrued interest payable | 25,297 | 24,478 |
| Amortization of original issue premium | 58,798 | 63,390 |
| Principal payments on bonds | 2,445,000 | 2,385,000 |
| Change in net position of governmental activities | \$ 2,318,166 | \$ 2,498,788 |

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

**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, 2019**

| | Budgeted Amounts | | Actual | Variances Favorable (Unfavorable) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | Final to Actual |
| Revenues | | | | |
| Lease income | \$ 1,338,000 | \$ 1,347,663 | \$ 1,347,663 | \$ - |
| Interest income | 21,900 | 23,935 | 23,635 | (300) |
| Miscellaneous | 25 | 81 | 81 | - |
| Total revenues | 1,359,925 | 1,371,679 | 1,371,379 | (300) |
| Expenditures | | | | |
| Current: | | | | |
| General government | 181,900 | 58,812 | 58,312 | 500 |
| Total expenditures | 181,900 | 58,812 | 58,312 | 500 |
| Excess (deficiency) of revenues over expenditures | 1,178,025 | 1,312,867 | 1,313,067 | 200 |
| Other financing sources (uses) | | | | |
| Designated cash (budgeted increase in cash) | (1,178,025) | 1,437,133 | - | (1,437,133) |
| Transfers (out) | - | (2,750,000) | (2,750,000) | - |
| Total other financing sources (uses) | (1,178,025) | (1,312,867) | (2,750,000) | (1,437,133) |
| Net change in fund balance | - | - | (1,436,933) | (1,436,933) |
| Fund balance - beginning of year | - | - | 5,848,499 | 5,848,499 |
| Fund balance - end of year | \$ - | \$ - | \$ 4,411,566 | \$ 4,411,566 |
| Net change in fund balance (Non-GAAP budgetary basis) | | | | \$ (1,436,933) |
| Adjustments to revenues for mill levy | | | | 5097 |
| Adjustments to expenditures for services | | | | (596) |
| Net change in fund balance (GAAP Basis) | | | | \$ (1,432,432) |

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

**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, 2018**

| | Budgeted Amounts | | Actual | Variances Favorable (Unfavorable) |
|---|--------------------|--------------------|------------------|---|
| | Original | Final | | Final to Actual |
| Revenues | | | | |
| Lease income | \$ 1,285,103 | \$ 1,305,874 | \$ 1,305,874 | \$ - |
| Interest income | 8,575 | 26,329 | 26,329 | - |
| Miscellaneous | - | 25 | 25 | - |
| Total revenues | 1,293,678 | 1,332,228 | 1,332,228 | - |
| Expenditures | | | | |
| Current: | | | | |
| General government | 61,050 | 77,764 | 77,764 | - |
| Total expenditures | 61,050 | 77,764 | 77,764 | - |
| Excess (deficiency) of revenues over expenditures | 1,232,628 | 1,254,464 | 1,254,464 | - |
| Other financing sources (uses) | | | | |
| Designated cash (budgeted increase in cash) | (1,232,628) | (1,254,464) | - | 1,254,464 |
| Transfers in | - | - | - | - |
| Transfers (out) | - | - | - | - |
| Proceeds from sale of capital assets | - | - | - | - |
| Bond proceeds | - | - | - | - |
| Total other financing sources (uses) | (1,232,628) | (1,254,464) | - | 1,254,464 |
| Net change in fund balance | - | - | 1,254,464 | 1,254,464 |
| Fund balance - beginning of year | - | - | 4,594,035 | 4,594,035 |
| Fund balance - end of year | \$ - | \$ - | \$ 5,848,499 | \$ 5,848,499 |
| Net change in fund balance (Non-GAAP budgetary basis) | | | | \$ 1,254,464 |
| Adjustments to revenues for mill levy | | | | (1,008) |
| Adjustments to expenditures for services | | | | (1,499,789) |
| Net change in fund balance (GAAP Basis) | | | | \$ (246,333) |

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

**Artesia Special Hospital District
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2019**

| | Budgeted Amounts | | Actual | Variances |
|---|------------------|------------------|------------------|---|
| | Original | Final | | Favorable (Unfavorable) Final to Actual |
| Revenues | | | | |
| Mill Levy | \$ 4,323,000 | \$ 4,856,826 | \$ 4,421,547 | \$ (435,279) |
| Interest income | 200 | 254 | - | (254) |
| Total revenues | 4,323,200 | 4,857,080 | 4,421,547 | (435,533) |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,323,000 | 4,856,826 | 4,421,547 | 435,279 |
| Total expenditures | 4,323,000 | 4,856,826 | 4,421,547 | 435,279 |
| Excess (deficiency) of revenues over expenditures | 200 | 254 | - | (254) |
| Other financing sources (uses) | | | | |
| Designated cash (budgeted increase in cash) | (200) | (254) | - | 254 |
| Total other financing sources (uses) | (200) | (254) | - | 254 |
| Net change in fund balance | - | - | - | - |
| Fund balance - beginning of year | - | - | - | - |
| Fund balance - end of year | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balance (Non-GAAP budgetary basis) | | | | \$ - |
| Adjustments to revenues for mill levy | | | | 366,587 |
| Adjustments to expenditures for Due to AGH | | | | (421,203) |
| Net change in fund balance (GAAP Basis) | | | | \$ (54,616) |

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

**Artesia Special Hospital District
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2018**

| | Budgeted Amounts | | Actual | Variances |
|---|------------------|------------------|------------------|---|
| | Original | Final | | Favorable (Unfavorable) Final to Actual |
| Revenues | | | | |
| Mill Levy | \$ 3,725,000 | \$ 4,083,233 | \$ 4,083,233 | \$ - |
| Interest income | 200 | 196 | 196 | - |
| Total revenues | 3,725,200 | 4,083,429 | 4,083,429 | - |
| Expenditures | | | | |
| Current: | | | | |
| General government | 3,725,000 | 4,083,233 | 4,083,233 | - |
| Total expenditures | 3,725,000 | 4,083,233 | 4,083,233 | - |
| Excess (deficiency) of revenues over expenditures | 200 | 196 | 196 | - |
| Other financing sources (uses) | | | | |
| Designated cash (budgeted increase in cash) | (200) | (196) | - | 196 |
| Transfers (out) | - | - | (196) | (196) |
| Total other financing sources (uses) | (200) | (196) | (196) | - |
| Net change in fund balance | - | - | - | - |
| Fund balance - beginning of year | - | - | - | - |
| Fund balance - end of year | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balance (Non-GAAP budgetary basis) | | | | \$ - |
| Adjustments to revenues for mill levy | | | | 103,589 |
| Adjustments to expenditures for Due to AGH | | | | (84,393) |
| Net change in fund balance (GAAP Basis) | | | | \$ 19,196 |

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

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Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

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.

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.

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, 2019, the District adopted GASB Statement No. 88 *Certain Discourses Related to Debt, including Direct Borrowing and Direct Placement* and GASB Statement No. 83, *Certain Asset Retirement Obligation*. These Statements are required to be implement as of June 15, 2018. These statements did not materially impact the District’s financial statements.

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.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 claims and judgments, are recorded only when payment is due.

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

All other revenue items are considered to be measurable and available only when cash is received by the government. The District had no tax abatements requiring separate disclosure under GASB Statement No. 77.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following major governmental funds:

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

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.

**Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The District uses the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------|--------------|
| Land improvements | 10-25 |
| Buildings & improvements | 5-40 |
| Equipment | 3-20 |

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, 2019 and 2018

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 has implemented GASB Statement No. 54 and has defined the various categories reported in fund balance. 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.

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, 2019 and 2018, the District had \$8,509 and \$8,668, respectively, of nonspendable fund balances from the prepayments of expenditures.

Restricted and Committed Fund Balance: At June 30, 2019 and 2018, the restricted fund balance on the governmental funds balance sheet is made up of \$4,805,629 and \$4,504,714 restricted for the payment of principle and interest of the future debt service requirements and \$2,489,939 and \$3,000,160 restricted for the purpose of erecting, remodeling, making additions to and furnishing hospital buildings and purchasing equipment used by the hospital.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- 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.
- 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.
- 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 \$7,295,568 and \$7,519,086 for the years ended June 30, 2019 and 2018, 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 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. Bond issuance costs are reported as an expense of current period as required by GASB Statement No. 65.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of asset and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

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, 2019 and 2018 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.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 2: DEPOSITS AND INVESTMENTS

Section 22-8-40, NMSA 1978 authorizes 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, 2019 and 2018.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute.

The financial institution must provide pledged collateral for 50% of the deposit amount in excess of the deposit insurance. The collateral pledged is listed on Schedule of Collateral Pledged by Depository for Public Funds in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, District or political subdivision of the State of New Mexico.

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.

All of the District's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000 for all deposit accounts out of state and up to \$250,000 for all time and saving accounts plus up to \$250,000 for all demand deposit accounts held at a single institution in state.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, 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, 2019, \$11,244,128 of the District's bank balances of \$11,744,128 was exposed to custodial credit risk. \$11,244,128 was uninsured and collateralized by collateral held by the pledging bank's trust department not in the District's name, and \$0 was uninsured and uncollateralized. At June 30, 2018, \$12,488,512 of the District's bank balances of \$12,988,512 was exposed to custodial credit risk. \$12,488,512 was uninsured and collateralized by collateral held by the pledging bank's trust department not in the District's name, and \$0 was uninsured and uncollateralized.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

| Year Ended June 30, 2019 | First American | Western Bank | Total |
|---------------------------------|-----------------------|---------------------|---------------|
| Amount of deposits | \$ 10,443,445 | \$ 1,300,683 | \$ 11,744,128 |
| FDIC Coverage | (250,000) | (250,000) | (500,000) |
| Total uninsured public funds | 10,193,445 | 1,050,683 | 11,244,128 |

Collateralized by securities held
by pledging institutions or by its
trust department or agent in
other than the District's name

| | | | |
|--------------------------------|------------|-----------|------------|
| | 10,193,445 | 1,050,683 | 11,244,128 |
| Uninsured and uncollateralized | \$ - | \$ - | \$ - |

| | | | |
|------------------------------|--------------|--------------|--------------|
| Collateral requirement (50%) | \$ 5,096,722 | \$ 525,342 | \$ 5,622,064 |
| Pledged securities | 11,920,829 | 1,594,564 | 13,515,393 |
| Over (under) collateralized | \$ 6,824,107 | \$ 1,069,222 | \$ 7,893,329 |

| Year Ended June 30, 2018 | First American | Western Bank | Total |
|---------------------------------|-----------------------|---------------------|---------------|
| Amount of deposits | \$ 11,704,295 | \$ 1,284,217 | \$ 12,988,512 |
| FDIC Coverage | (250,000) | (250,000) | (500,000) |
| Total uninsured public funds | 11,454,295 | 1,034,217 | 12,488,512 |

Collateralized by securities held
by pledging institutions or by its
trust department or agent in
other than the District's name

| | | | |
|--------------------------------|------------|-----------|------------|
| | 11,454,295 | 1,034,217 | 12,488,512 |
| Uninsured and uncollateralized | \$ - | \$ - | \$ - |

| | | | |
|------------------------------|--------------|--------------|--------------|
| Collateral requirement (50%) | \$ 5,727,147 | \$ 517,109 | \$ 6,244,256 |
| Pledged securities | 11,619,650 | 1,719,466 | 13,339,116 |
| Over (under) collateralized | \$ 5,892,503 | \$ 1,202,357 | \$ 7,094,860 |

The collateral pledged is listed on Schedule of Collateral Pledged by Depository for Public Funds of this report. The types of collateral allowed are limited to direct obligations of the United States Government, all bonds issued by any agency, District or political subdivision of the State of New Mexico, securities, including student loans, that are guaranteed by the United States or the state of New Mexico, revenue bonds that are underwritten by a member of the financial industry regulatory authority, known as FINRA, and are rated BAA or above by a nationally recognized bond rating service, or letter of credit issued by a federal home loan bank.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Reconciliation to the Statement of Net Position

The carrying amounts of deposits and investment show above are included in the District’s statement of net position as follows for June 30, 2019:

| | |
|---|---------------|
| Cash and cash equivalents per statement of net position | \$ 5,601,408 |
| Restricted cash per statement of net position | 4,575,631 |
| Investments per statement of net position | 1,300,683 |
| <hr/> | |
| Total cash, cash equivalents and investments | 11,477,722 |
| Add: outstanding checks | 266,406 |
| <hr/> | |
| Bank balance of deposits | \$ 11,744,128 |
| <hr/> <hr/> | |

The carrying amounts of deposits and investment show above are included in the District’s statement of net position as follows for June 30, 2018:

| | |
|---|---------------|
| Cash and cash equivalents per statement of net position | \$ 7,564,442 |
| Restricted cash per statement of net position | 4,135,586 |
| Investments per statement of net position | 1,284,217 |
| <hr/> | |
| Total cash, cash equivalents and investments | 12,984,245 |
| Add: outstanding checks | 4,267 |
| <hr/> | |
| Bank balance of deposits | \$ 12,988,512 |
| <hr/> <hr/> | |

Investments

Interest Rate Risk – Investments. The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Concentration Credit Risk – Investments. For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the District. The District’s currently has 100% in certificates of deposits. Since the District only purchases investment with high credit ratings, the additional concentration is not viewed to be an additional risk by the District. The District’s policy related to concentration credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

The District maintained a balance of \$1,300,683 and \$1,284,217 in certificates of deposits presented as investments as of June 30, 2019 and 2018, respectively.

**Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018**

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 \$4,788,134 and \$4,187,018 for the years ended June 30, 2019 and 2018, 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 \$3,294,663 and \$3,671,247 for the years ended June 30, 2019 and 2018, 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.

Mill levy receivable consists of the following at June 30:

| | 2019 | 2018 |
|---|-------------|-------------|
| Mill levy receivable: | | |
| Ad valorem | \$ 158,381 | \$ 117,531 |
| Oil and gas | 543,208 | 718,658 |
| Less: allowance for uncollectible amounts | (3,168) | (17,571) |
| Total mill levy receivable | \$ 698,421 | \$ 818,618 |

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 4: CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2019 and 2018, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation.

Capital assets, net of accumulated depreciation, at June 30, 2019 appear in the Statement of Net Position as follows:

| | Balance at June 30, 2018 | Additions | Disposals and Retirements | Balance Ending June 30, 2019 |
|--|-----------------------------|---------------------|------------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 346,052 | \$ - | \$ - | \$ 346,052 |
| Art work | 1,835 | - | (1,835) | - |
| Construction in progress | - | 3,304,318 | - | 3,304,318 |
| Total capital assets not being depreciated | 347,887 | 3,304,318 | (1,835) | 3,650,370 |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,837,860 | - | (5,489) | 1,832,371 |
| Buildings & improvements | 45,955,950 | - | (36,528) | 45,919,422 |
| Equipment | 10,184,868 | - | (399,377) | 9,785,491 |
| Total capital assets being depreciated | 57,978,678 | - | (441,394) | 57,537,284 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,252,168 | 38,734 | (5,489) | 1,285,413 |
| Buildings & improvements | 20,132,927 | 1,801,314 | (36,528) | 21,897,713 |
| Equipment | 9,961,984 | 66,469 | (401,212) | 9,627,241 |
| Total accumulated depreciation | 31,347,079 | 1,906,517 | (443,229) | 32,810,367 |
| Total capital assets being depreciated, net | 26,631,599 | (1,906,517) | 1,835 | 24,726,917 |
| Total capital assets, net | \$ 26,979,486 | \$ 1,397,801 | \$ - | \$ 28,377,287 |

Depreciation expenses for the year ended was \$1,906,517 and has been charged to the general government function.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 4: CAPITAL ASSETS (Continued)

Capital assets, net of accumulated depreciation, at June 30, 2018 appear in the Statement of Net Position as follows:

| | Balance at June 30, 2017 | Additions | Disposals and Retirements | Balance Ending June 30, 2018 |
|--|-----------------------------|-----------------------|------------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 346,052 | \$ - | \$ - | \$ 346,052 |
| Art work | 1,835 | | | 1,835 |
| Total capital assets not being depreciated | 347,887 | - | - | 347,887 |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,820,084 | 17,776 | - | 1,837,860 |
| Buildings & improvements | 45,955,950 | - | - | 45,955,950 |
| Equipment | 10,184,868 | - | - | 10,184,868 |
| Total capital assets being depreciated | 57,960,902 | 17,776 | - | 57,978,678 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,207,548 | 44,620 | - | 1,252,168 |
| Buildings & improvements | 18,335,150 | 1,797,777 | - | 20,132,927 |
| Equipment | 9,902,578 | 59,406 | - | 9,961,984 |
| Total accumulated depreciation | 29,445,276 | 1,901,803 | - | 31,347,079 |
| Total capital assets being depreciated, net | 28,515,626 | (1,884,027) | - | 26,631,599 |
| Total capital assets, net | \$ 28,863,513 | \$ (1,884,027) | \$ - | \$ 26,979,486 |

Depreciation expenses 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, 2019 and 2018**

NOTE 5: LONG-TERM DEBT

General obligation bonds are secured by and payable solely from the Debt Service Fund.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued with varying terms and varying amounts of principal maturing each year. All general obligation bonds as of June 30, 2019 and 2018 are for governmental activities.

Bonds outstanding at June 30, 2019 and 2018 are comprised of the following:

| | Series 2006 | Series 2012 | Series 2013 |
|-----------------|--------------------|--------------------|--------------------|
| Original Issue: | \$ 8,000,000 | \$ 8,680,000 | \$ 14,500,000 |
| Principal: | August 1 | August 1 | August 1 |
| Interest: | August 1 | August 1 | August 1 |
| | February 1 | February 1 | February 1 |
| Interest Rates: | 3.65%-4.50% | 2.00%-4.00% | 2.00%-5.00% |
| Maturity Date: | August 2019 | August 2019 | August 2025 |

During the year ended June 30, 2019, the following changes occurred in the liabilities reported in the government-wide statement of net position:

| | Balance June 30, 2018 | Additions | Retirements | Balance June 30, 2019 | Due Within One Year |
|-----------------------------|----------------------------------|------------------|---------------------|----------------------------------|--------------------------------|
| General Obligation Bonds | | | | | |
| Series 2006 | \$ 1,375,000 | \$ - | \$ 675,000 | \$ 700,000 | \$ 700,000 |
| General Obligation Bonds | | | | | |
| Series 2012 | 3,035,000 | - | 1,500,000 | 1,535,000 | 1,535,000 |
| General Obligation Bonds | | | | | |
| Series 2013 | 12,400,000 | - | 270,000 | 12,130,000 | 270,000 |
| Total Bonds | 16,810,000 | - | 2,445,000 | 14,365,000 | 2,505,000 |
| Total Long-Term Debt | \$ 16,810,000 | \$ - | \$ 2,445,000 | \$ 14,365,000 | \$ 2,505,000 |

**Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018**

NOTE 5: LONG-TERM DEBT (Continued)

During the year ended June 30, 2018, the following changes occurred in the liabilities reported in the government-wide statement of net position:

| | Balance June 30, 2017 | Additions | Retirements | Balance June 30, 2018 | Due Within One Year |
|-----------------------------|----------------------------------|------------------|---------------------|----------------------------------|--------------------------------|
| General Obligation Bonds | | | | | |
| Series 2006 | \$ 2,025,000 | \$ - | \$ 650,000 | \$ 1,375,000 | \$ 675,000 |
| General Obligation Bonds | | | | | |
| Series 2012 | 4,510,000 | - | 1,475,000 | 3,035,000 | 1,500,000 |
| General Obligation Bonds | | | | | |
| Series 2013 | 12,660,000 | - | 260,000 | 12,400,000 | 270,000 |
| Total Bonds | 19,195,000 | - | 2,385,000 | 16,810,000 | 2,445,000 |
| Total Long-Term Debt | \$ 19,195,000 | \$ - | \$ 2,385,000 | \$ 16,810,000 | \$ 2,445,000 |

The annual requirements to amortize the general obligation bonds outstanding as of June 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending | Principal | Interest | Total Debt Service |
|-------------------------------|----------------------|---------------------|-------------------------------|
| 2020 | \$ 2,505,000 | \$ 495,600 | \$ 3,000,600 |
| 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 | 2,000,000 | 203,750 | 2,203,750 |
| 2025-2026 | 3,860,000 | 177,375 | 4,037,375 |
| | \$ 14,365,000 | \$ 1,937,975 | \$ 16,302,975 |

**Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018**

NOTE 5: LONG-TERM DEBT (Continued)

The annual requirements to amortize the general obligation bonds outstanding as of June 30, 2018, including interest payments, are as follows:

| Fiscal Year Ending | Principal | Interest | Total Debt Service |
|-----------------------|----------------------|---------------------|-----------------------|
| 2019 | \$ 2,445,000 | \$ 557,806 | \$ 3,002,806 |
| 2020 | 2,505,000 | 495,600 | 3,000,600 |
| 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 |
| | <u>\$ 16,810,000</u> | <u>\$ 2,495,781</u> | <u>\$ 19,305,781</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, 2019 and 2018**

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:

| | |
|-----------|--------------|
| 2020 | \$ 1,360,936 |
| 2021 | 59,604 |
| 2022 | 60,360 |
| 2023 | 62,628 |
| 2024 | 63,420 |
| 2025-2026 | 115,143 |
| | <hr/> |
| | \$ 1,722,091 |
| | <hr/> <hr/> |

NOTE 8: OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The District had the following fund that maintained a deficit fund balance at June 30:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|-------------|-------------|
| Special revenue fund - major | \$ 69,331 | \$ 14,715 |

- 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, 2019 or 2018.

Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

NOTE 8: OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES (Continued)

- C. Designated cash appropriations in excess of available balance. The District had no funds with designated cash appropriations in excess of available balances for the year ended June 30, 2019 or 2018.

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.

NOTE 10: COMMITMENTS

The District had the Artesia General Hospital west wing addition construction project ongoing as of the year ended June 30, 2019 that is to be continued into the following fiscal year. The estimated balance to finish is \$2,480,412.

NOTE 11: SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is October 15, 2019, which is the date on which the financial statements were available to be issued.

NOTE 12: SUBSEQUENT PRONOUNCEMENTS

In January 2017, GASB Statement No. 84, *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87, *Leases*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.



**Artesia Special Hospital District
Notes to Financial Statements
June 30, 2019 and 2018**

NOTE 12: SUBSEQUENT PRONOUNCEMENTS (Continued)

In June 2018, GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In May 2019, GASB Statement No. 91, *Conduit Debt Obligations*, was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

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Supplementary Information

Artesia Special Hospital District
Schedule of Deposits
June 30, 2019

| Bank Account Type/ Name | First American Bank | Western Bank | Total |
|--|------------------------------------|-------------------------|---------------------|
| Operational - NOW checking | \$ 1,017,231 | \$ - | \$ 1,017,231 |
| Regular - MMF checking | 2,092,926 | - | 2,092,926 |
| Operation mill levy | 1,638 | - | 1,638 |
| Bond sinking fund - MMF checking | 4,575,631 | - | 4,575,631 |
| Capital projects - NOW checking | 2,756,019 | - | 2,756,019 |
| Certificate of Deposit | - | 1,300,683 | 1,300,683 |
| Total | \$ 10,443,445 | \$ 1,300,683 | 11,744,128 |
| Reconciling items | | | (266,406) |
| Reconciled balance June 30, 2019 | | | 11,477,722 |
| Less: investments per statement of net position | | | (1,300,683) |
| Less: restricted cash per statement of net position | | | (4,575,631) |
| Cash and cash equivalents per statement of net position | | | \$ 5,601,408 |

See independent auditors' report.

Artesia Special Hospital District
Schedule of Deposits
June 30, 2018

| Bank Account Type/ Name | First American Bank | Western Bank | Total |
|--|------------------------------------|-------------------------|---------------------|
| Operational - NOW checking | \$ 1,730,777 | \$ - | \$ 1,730,777 |
| Regular - MMF checking | 2,836,388 | - | 2,836,388 |
| Operation mill levy | 1,384 | - | 1,384 |
| Bond sinking fund - MMF checking | 4,135,586 | - | 4,135,586 |
| Capital projects - NOW checking | 3,000,160 | - | 3,000,160 |
| Certificate of Deposit | - | 1,284,217 | 1,284,217 |
| Total | \$ 11,704,295 | \$ 1,284,217 | 12,988,512 |
| Reconciling items | | | (4,267) |
| Reconciled balance June 30, 2018 | | | 12,984,245 |
| Less: investments per statement of net position | | | (1,284,217) |
| Less: restricted cash per statement of net position | | | (4,135,586) |
| Cash and cash equivalents per statement of net position | | | \$ 7,564,442 |

See independent auditors' report.

Artesia Special Hospital District
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2019

| Name of Depository | Description of Pledged Collateral | Maturity | CUSIP Number | Fair Market June 30, 2019 |
|---|-----------------------------------|------------|--------------|---------------------------|
| First American Bank | | | | |
| | Estancias Mun SD #7 NM 21 | 6/15/2021 | 297326EF3 | \$ 173,512 |
| | Texico SD # 2 NM 21 | 8/1/2021 | 883005CH1 | 85,184 |
| | Mosquero SD # 5 NM 22 | 10/15/2022 | 619636ES8 | 209,676 |
| | Clovis Muni SD # 1-A NM 23 | 8/1/2023 | 189414KT1 | 203,174 |
| | Gadsden ISD # 16 NM 23 | 8/15/2023 | 362550MG7 | 1,005,069 |
| | Hobbs SD # 16 NM 24 | 4/15/2024 | 433866DR8 | 793,539 |
| | Espanola SD # 55 NM 26 | 9/1/2026 | 29662RBB3 | 2,120,140 |
| | FHLMC 15YR | 5/1/2027 | 3128Q0GL5 | 433,284 |
| | Los Lunas SD #1-A-Ref NM27 | 7/15/2027 | 545562RP7 | 455,148 |
| | Clovis SD # 1 NM 28 | 8/1/2028 | 189414NT8 | 376,250 |
| | Dona Ana Co NM 28 | 9/1/2028 | 257579DA7 | 418,044 |
| | FHLMC 15Yr | 1/1/2029 | 3128MEEH0 | 1,032,755 |
| | GNMA 15YR | 3/15/2029 | 3622A2MX7 | 738,175 |
| | GNMA II 3x1 | 10/20/2040 | 36225E5F5 | 192,388 |
| | GNMA II 3x1 | 11/20/2040 | 36225E5X6 | 260,904 |
| | GNMA II 5x1 | 1/20/2041 | 36225FAN9 | 265,583 |
| | GNMA II 7x1 | 10/20/2041 | 36225FJV2 | 243,388 |
| | GNMA II 5x1 | 4/20/2042 | 36179MBB5 | 297,268 |
| | GNMA II 30YR | 6/20/2048 | 3617H9YS3 | 1,059,736 |
| | FHLMC 30YR | 8/1/2048 | 3132LAA28 | 1,557,612 |
| Total First American Bank | | | | 11,920,829 |
| Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank - Dallas, Texas | | | | |
| Western Bank | | | | |
| | Hobbs NM SCH Dist No. 16 | 4/15/2024 | 433866DR8 | 264,004 |
| | Hobbs NM SCH Dist No. 16 | 4/15/2024 | 433866DR8 | 211,203 |
| | FNMA - Pool #: MA1237 | 11/1/2032 | 31418ALT3 | 83,878 |
| | FHLMC Pool # C91764 | 5/1/2034 | 3128P75Z2 | 1,035,479 |
| Total Western Bank | | | | 1,594,564 |
| Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank - Dallas, Texas | | | | |
| Total pledged collateral | | | | \$ 13,515,393 |

See independent auditors' report.

Artesia Special Hospital District
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2018

| Name of Depository | Description of Pledged Collateral | Maturity | CUSIP Number | Fair Market June 30, 2018 |
|---|-----------------------------------|------------|--------------|------------------------------|
| First American Bank | | | | |
| | Lea Cnty Pub SD # 8 NM 19 | 1/15/2019 | 521513BT7 | \$ 260,580 |
| | Alamogordo NM 28 | 8/1/2028 | 011446GB1 | 309,093 |
| | Albuquerque SD 12 NM 12 | 8/1/2020 | 013595LK7 | 934,173 |
| | Albuquerque SD 12 NM 22 | 8/1/2022 | 013595LM3 | 1,335,139 |
| | Grants ETC SD # 1 NM 20 | 4/15/2020 | 388240FS7 | 444,263 |
| | Estancia MUN SD # 7 NM 21 | 6/15/2021 | 297326EF3 | 174,982 |
| | Texico SD # 2 NM 21 | 8/1/2021 | 883005CH1 | 85,167 |
| | Gadsden ISD # 16 NM 23 | 8/15/2023 | 362550MG7 | 998,995 |
| | Hobbs SD # 16 NM 24 | 4/15/2024 | 433866DR8 | 800,303 |
| | Espanola SD # 55 NM 26 | 9/1/2026 | 29662RBB3 | 1,987,003 |
| | FHLMC 15 YR | 5/1/2027 | 3128Q0GL5 | 511,914 |
| | Los Lunas SD # 1-A-REF NM 27 | 7/15/2027 | 545562rp7 | 449,181 |
| | Dona Ana CO NM 28 | 9/1/2028 | 257579DA7 | 409,392 |
| | FHLMC 15 YR | 1/1/2029 | 3128MEEH10 | 1,182,135 |
| | GNMA II 3x1 | 10/20/2040 | 36225E5F5 | 300,121 |
| | GNMA II 3x1 | 11/20/2040 | 36225E5X6 | 367,684 |
| | GNMA II 5x1 | 1/20/2041 | 36225FAN9 | 336,659 |
| | GNMA II 7x1 | 10/20/2041 | 36225FJV2 | 312,716 |
| | GNMA II 5x1 | 4/20/2042 | 36179MBB5 | 420,150 |
| First American Bank | | | | 11,619,650 |
| Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank - Dallas, Texas | | | | |
| Western Bank | | | | |
| | FHLMC - Pool # C91764 | 5/1/2034 | 3128P75Z2 | 1,173,472 |
| | Hobbs NM School District | 4/15/2024 | 433866DR8 | 452,931 |
| | FNMA - Pool #: MA1237 | 11/1/2032 | 31418ALT3 | 93,063 |
| Total Western Bank | | | | 1,719,466 |
| Name and location of safekeeper for above pledged collateral: Federal Home Loan Bank - Dallas, Texas | | | | |
| Total pledged collateral | | | | \$ 13,339,116 |

See independent auditors' report.

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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 GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Brian S. Colón
New Mexico State Auditor
Board of Trustees
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 comparisons of the general fund and major special revenue fund of Artesia Special Hospital District (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 15, 2019.

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*.

We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompany schedule of Section 12-6-5 NMSA 1978 Findings as NM 2019-001.

The District's Response 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, New Mexico
October 15, 2019

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**Artesia Special Hospital District
Schedule of Findings and Responses
June 30, 2019**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

- | | |
|--|------------|
| • Type of auditors’ report issued | Unmodified |
| • Internal Control over Financial Reporting | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted? | No |

**Artesia Special Hospital District
Schedule of Findings and Responses
June 30, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS AND RESPONSES

None noted.

SECTION III – FINDINGS SECTION 12-6-5 NMSA 1978 FINDINGS

NM 2019-001 – Third-Party Accountant Internal Controls Deficiencies – (Other Noncompliance)

Condition: It was noted during testwork that a review was taking place of the third party accountant but not being documented and in some cases the controls were not adequate. This resulted in errors or lack of documentation in the following areas:

- There was no written documentation on 2 of 2 journal entries tested that show preparer and reviewer initials and dates.
- There were 4 journal entries which were not balanced by fund in the amount of \$303,107.
- There was no written documentation on 1 of 1 cash reconciliation tested that showed preparer and reviewer initials and dates.


Criteria: *The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.*

Effect: Not having proper documentation of journal entry and cash reconciliation preparation by the third party accountant and review by the District could result in journal entries being posted to the system incorrectly as well as causing material misstatements to the financial statements.

Cause: Management does not have controls in place to adequately document the review of the third-party accountant's preparation of financial records.

Auditors' Recommendations: The District should implement a procedure where initials and dates of the preparer and reviewer of journal entries and cash reconciliations are documented on paper. The District should also implement a procedure to verify that each of its funds are balanced.

Views of Responsible Officials and Planned Corrective Actions: The District has implemented procedures to formally document its review of journal entries and cash reconciliations and have instructed third party accountant to initial as well. The Chairman will be responsible for this implementation which will be in place by December 2019. The District will also implement a procedure to verify that each of its funds are balanced. The Chairman will be responsible for this implementation which will be in place by June 30, 2020.



**Artesia Special Hospital District
Schedule of Findings and Responses
June 30, 2019**

SECTION IV – STATUS OF PRIOR YEAR FINDINGS

No prior year findings.

