



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2018 AND 2017

INTRODUCTORY SECTION

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
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JUNE 30, 2018**

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**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
OFFICIAL ROSTER
JUNE 30, 2018**

Board of Trustees

Steven Briggs
Nathan Lay
Frederick Martinez
Bruce Jassman
Roy Ackerman

Madame Chair
Vice Chairperson
Secretary/Treasurer
Trustee
Trustee

Principal Employees

Kaycee Sandoval

District Administrator

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Central Colfax County Special Hospital District
Springer, New Mexico and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County 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. We have also audited the District's Budgetary Comparison Statements presented as supplementary information as defined by the Governmental Accounting Standards Board for the years ended June 30, 2018 and 2017, 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 responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no

Board of Trustees
South Central Colfax County Special Hospital District
and Mr. Wayne Johnson
New Mexico State Auditor

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and agency fund of the District as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison statement of the District for the years ended June 30, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 6-10, 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

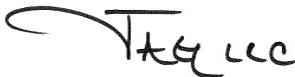
Our audits for the years ended June 30, 2018 and 2017 were conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparison statements of the District. The Schedules of Individual Deposit Accounts and Pledged Collateral and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund, as required by NMAC 2.2.2 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Trustees
South Central Colfax County Special Hospital District
and Mr. Wayne Johnson
New Mexico State Auditor

The Schedules of Individual Deposit Accounts and Pledged Collateral and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Funds are the responsibility of management and were derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 15, 2018

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

This section of the financial report presents management's discussion and analysis of South Central Colfax County Special Hospital District's (the "District") financial performance during the fiscal years that ended June 30, 2018, 2017, and 2016. This presentation is intended to enhance the reader's understanding of the financial statements that follow and should be read in conjunction with those financial statements.

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses and changes in net position report information about the District and its business-type activities in a way that helps answer the question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The District's net position represents the difference between its assets and liabilities and is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors need to be considered, however, such as changes in the Medicaid rates charged for patient services, census days, building repairs, insurance, and equipment replacement/repair.

The District also presents an agency fund to report the assets and liabilities associated with funds held by the District in a custodial capacity on behalf of patients. Assets equal liabilities for this fund, which is the proper accounting for agency-type fiduciary funds.

CONDENSED STATEMENTS OF NET POSITION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,657,195	\$ 1,486,493	\$ 1,301,737
Non-current assets	<u>869,118</u>	<u>858,902</u>	<u>925,201</u>
Total assets	<u>\$ 2,526,313</u>	<u>\$ 2,345,395</u>	<u>\$ 2,226,938</u>
Current liabilities	\$ 213,456	\$ 233,384	\$ 396,643
Net position			
Net investment in capital assets	869,118	858,902	925,201
Unrestricted	<u>1,443,739</u>	<u>1,253,109</u>	<u>905,094</u>
Total net position	<u>2,312,857</u>	<u>2,112,011</u>	<u>1,830,295</u>
Total liabilities and net position	<u>\$ 2,526,313</u>	<u>\$ 2,345,395</u>	<u>\$ 2,226,938</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

Highlight of changes in Statement of Net Position: 2018 vs. 2017

The District's total assets increased by approximately \$181,000 in 2018 compared to 2017. This increase in total assets was due primarily to the following:

- Cash and cash equivalents increased by approximately \$330,000 due primarily to an \$195,000 reduction in total expenses, including an \$88,000 reduction in supplies expense and an \$40,000 reduction in purchased services.

The above was offset by the following:

- Net patient accounts receivable decreased by approximately \$151,000, primarily due to an approximately \$220,000 write-off of uncollectable Medicaid receivables.

The District's total liabilities decreased approximately \$20,000 in 2018 as compared to 2017 due to an decreased in accrued liabilities due to timing of benefits payment and miscellaneous accruals at year end.

Highlight of changes in Statement of Net Position: 2017 vs. 2016

The District's total assets increased by approximately \$118,000 in 2017 compared to 2016. This increase in total assets was due primarily to the following:

- Cash and cash equivalents dropped by approximately \$166,000 due to \$150,000 in payments on accounts payable occurring in the last week of June 2017.
- Capital assets decreased by approximately \$66,000 primarily due to the net effect of \$97,000 of depreciation expense offset by the purchase of \$31,000 of new assets.

The above was offset by the following:

- Patient receivables increased by approximately \$53,000 due to Medicaid – pending residents at the long-term care facility at June 30, 2017.
- Ad valorem taxes receivable increased by approximately \$291,000. The increase is primarily due to the County's recent property tax software upgrade which now allows the County to provide delinquent property taxes, by tax year, for each taxing district. Prior to 2017, management was unable to accurately estimate the ad valorem receivable and, therefore, recorded a conservative estimate.

The District's total liabilities decreased approximately \$163,000 in 2017 as compared to 2016, due to the timing of payments on accounts payable at year end.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 1,901,424	\$ 2,034,066	\$ 2,066,020
Operating expenses	<u>3,926,128</u>	<u>4,120,841</u>	<u>4,245,383</u>
Operating loss	(2,024,704)	(2,086,775)	(2,179,363)
Non-operating revenue	<u>2,225,550</u>	<u>2,368,491</u>	<u>2,129,749</u>
Change in net position	200,846	281,716	(49,614)
Net position, beginning of year	<u>2,112,011</u>	<u>1,830,295</u>	<u>1,879,909</u>
Net position, end of year	<u>\$ 2,312,857</u>	<u>\$ 2,112,011</u>	<u>\$ 1,830,295</u>

Highlight of changes in Statement of Changes in Net Position: 2018 vs. 2017

- Operating revenue decreased by approximately \$133,000 in 2018 compared to 2017, primarily due to \$270k in increased contractual allowances and write-offs, offset by an increase of \$138,000 in patient service revenue.
- Non-operating revenue (expense) decreased by approximately \$143,000 in 2018 compared to 2017, primarily due to a change in estimate in 2017, from more accurate revenue recognition, as described in the discussion above on ad valorem receivable.
- Operating expenses decreased by approximately \$195,000 in 2018 compared to 2017, primarily due to the decrease in costs including an \$88,000 reduction in supplies expense and an \$40,000 reduction in purchased services.
- As the District completed the fiscal year, net position increased by approximately \$201,000.

Highlight of changes in Statement of Changes in Net Position 2017 vs. 2016

- Operating revenue decreased by approximately \$32,000 in 2017 compared to 2016, primarily due to rate decreases offset by contractual allowances and write-offs.
- Non-operating revenue (expense) increased by approximately \$239,000 in 2017 compared to 2016, primarily due to more accurate revenue recognition as described in the discussion above on ad valorem receivable.
- Operating expenses decreased by approximately \$125,000 in 2017 compared to 2016, primarily due to the decrease in costs as a result of the District's termination of contract services with Taos Professional Services.
- As the District completed the fiscal year, net position increased by approximately \$282,000.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

Highlights of 2018 Performance vs. Fiscal Year Budget

- There were no significant adjustments made between the original and final approved budgets.
- Net patient service revenue was under budget by approximately \$181,000 due to an increase in contractual allowances and write-offs.
- Purchased service expenses were over budget by \$5,000 due to higher than expected accounts payable at year end.
- Salaries, wages, and employee benefit expenses were under budget by \$114,000, due to some positions that went unfilled during the year.
- Supply expenses were under budget by \$58,000 due to lower than expected cost on pharmaceutical supplies.

Highlights of 2017 Performance vs. Fiscal Year Budget

- Net patient service revenue was over budget by approximately \$18,000 due to the increase in the Medicaid Low Nursing Facility (LNF) care rate in August 2016.
- Supplies were over budget by \$14,000 due to higher than expected cost on pharmaceutical supplies.
- Ad valorem taxes (mill levy) income was over budget by approximately \$241,000 primarily due to the recognition of additional delinquent property taxes that were previously not measurable or estimable.

Capital Assets

At the end of fiscal year 2018, the District had approximately \$869,000 invested in capital assets, net of accumulated depreciation, including land and land improvements, building and building improvements, and equipment. The amount represents a net increase of approximately \$10,000 from the prior year, due to capital additions in excess of current year depreciation. For fiscal year 2017, the decrease of approximately \$66,000 was due to depreciation in excess of capital additions. Refer to the notes to the financial statements for further information about capital assets.

Economic Factors and 2019's Budget and Rates

Key factors affecting 2019's revenues and expense are as follows:

- Based on confirmed grants through the Rural Primary Health Care Act (RPHCA), the District expects to continue to receive total grant revenue of approximately \$55,000 for the two clinics.
- The budget is a conservative reflection of the prior year's actual revenues and expenses as levels are expected to remain consistent in fiscal year 2019.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017**

- Management expects an increase in total net position from 2018 to 2019, slightly above break-even.

Contacting the District's Financial Management

This financial report is designed to provide the District's Board of Trustees, customers, and the citizens of Colfax County with a general overview of the District's finances and to show the District's financial accountability. If you have any questions about this report or need additional financial information, contact:

South Central Colfax County Special Hospital District
Ms. Kaycee Sandoval, District Administrator
PO Box 458
Springer, New Mexico 87747
(575) 483-2443

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 931,954	\$ 601,747
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$70,111 in 2018 and \$72,756 in 2017	300,851	451,461
Ad valorem taxes receivable	326,284	327,606
Prepaid expenses	17,592	27,092
Supplies inventory	80,514	78,587
Total current assets	1,657,195	1,486,493
Capital assets, net	869,118	858,902
Total assets	\$ 2,526,313	\$ 2,345,395
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 43,359	\$ 36,342
Accrued payroll and related benefits	75,718	86,581
Accrued compensated absences	70,838	73,524
Other accrued liabilities	23,541	36,937
Total current liabilities	213,456	233,384
Net position		
Net investment in capital assets	869,118	858,902
Unrestricted	1,443,739	1,253,109
Total net position	2,312,857	2,112,011
Total liabilities and net position	\$ 2,526,313	\$ 2,345,395

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Net patient service revenue	<u>\$ 1,901,424</u>	<u>\$ 2,034,066</u>
Operating Expenses		
Salaries, wages and employee benefits	2,476,410	2,539,440
Purchased services and other	853,990	893,503
Supplies	362,249	448,229
Depreciation	87,004	100,241
Insurance	146,475	139,428
	<u>3,926,128</u>	<u>4,120,841</u>
Total operating expenses		
	<u>(2,024,704)</u>	<u>(2,086,775)</u>
Operating loss		
Non-operating revenue (expense)		
Ad valorem taxes	2,134,152	2,267,188
Grants and other	91,398	102,476
Interest expense	<u>-</u>	<u>(1,173)</u>
	<u>2,225,550</u>	<u>2,368,491</u>
Total non-operating revenue		
	<u>200,846</u>	<u>281,716</u>
Change in net position		
Net position, beginning of year	<u>2,112,011</u>	<u>1,830,295</u>
Net position, end of year	<u><u>\$ 2,312,857</u></u>	<u><u>\$ 2,112,011</u></u>

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Cash received from patients and third-party payors	\$ 1,748,169	\$ 2,127,582
Cash paid to employees	(2,462,861)	(2,556,600)
Cash paid to vendors	(1,084,753)	(1,783,216)
Net cash used in operating activities	(1,799,445)	(2,212,234)
Cash Flows From Non-capital Financing Activities		
Ad valorem taxes	2,135,474	1,976,346
Grants and other	91,398	102,476
Interest paid on borrowing	-	(1,173)
Net cash provided by non-capital financing activities	2,226,872	2,077,649
Cash Flows From Capital and Related Financing Activities		
Capital asset purchases	(97,220)	(30,950)
Net change in cash and cash equivalents	330,207	(165,535)
Cash and cash equivalents, beginning of year	601,747	767,282
Cash and cash equivalents, end of year	\$ 931,954	\$ 601,747
Reconciliation of operating revenue (loss) to net cash provided by (used in) operating activities		
Operating loss	\$ (2,024,704)	\$ (2,086,775)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	87,004	100,241
Provision for (reversal of) bad debts	(2,645)	40,452
Changes in assets and liabilities		
Patient accounts receivable	153,255	(93,516)
Prepaid expenses	9,500	(2,094)
Supplies inventory	(1,927)	(4,292)
Account payable	7,017	(131,589)
Accrued liabilities	(26,945)	(34,661)
Net cash used in operating activities	\$ (1,799,445)	\$ (2,212,234)

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and cash equivalents	<u><u>\$ 9,491</u></u>	<u><u>\$ 9,490</u></u>
 LIABILITIES		
Funds held for patients	<u><u>\$ 9,491</u></u>	<u><u>\$ 9,490</u></u>

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1. ORGANIZATION AND OPERATIONS

South Central Colfax County Special Hospital District (the "District") operates a long-term care facility in Springer, New Mexico and primary care clinics in Angel Fire and Cimarron, New Mexico. The District was created under New Mexico Statutes Sections 4-48A-1 to 4-48A-30, NMSA 1978 Compilation, known as "The Special Hospital District Act." The District's operations are funded primarily by revenues from healthcare operations and a mill levy tax assessed and collected by Colfax County, New Mexico (the "County"). The District has no assets or liabilities other than those related to its long-term care facility and primary care clinics.

In October 2014, the District incorporated the Colfax Healthcare Foundation (the "Foundation"), a not-for-profit subsidiary of the District. The Foundation received its approved 501(c)(3) tax filing status from the Internal Revenue Service in July 2015. The Foundation's sole purpose will be to solicit donations and contributions on behalf of the District while the District will be the sole beneficiary of such fundraising activities. As of June 30, 2018, there has been no material financial activity with respect to the Foundation; therefore, their financial statements have not been consolidated into that of the District's financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The financial statements of the District conform with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments. The following is a summary of significant policies.

Included in the District's financial statements are a proprietary fund and an agency fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statements of net position. The District has no component units.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as ad valorem taxes, grants and investment earnings, result from non-exchange transactions or ancillary activities. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The District had no restricted net position at June 30, 2018 or 2017.

Agency Fund. The agency fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. The District's agency fund reports cash held in a custodial capacity and on a temporary basis on behalf of patients. To the extent requested by a patient or his/her representative, the District is required to hold funds in a custodial capacity until such time that patients or their representatives provide instructions for payment and all funds are disbursed.

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates. Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 results could differ from those estimates. Significant estimates contained in the District's financial statements include the allowance for doubtful accounts, contractual allowances, third-party payor settlements, and depreciation and amortization.

Cash and Cash Equivalents. Cash and cash equivalents include investments in highly-liquid debt instruments, with an original maturity of three months or less. The District's cash and cash equivalents consist of cash deposits held in bank checking and savings accounts as of June 30, 2018 and 2017.

Accounts Receivable and Allowances. Accounts receivable consist primarily of amounts due from Medicaid, Medicare, commercial insurance companies, and individual patients. Estimated provisions for contractual allowances and doubtful accounts are recorded to accounts receivable and as reductions to patient service revenue to the extent it is probable a portion of a particular account will not be collected. In evaluating the collectability of accounts receivable, the District considers several factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type, the status of any ongoing disputes with third-party payors, and general industry conditions. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that amounts ultimately collected will materially differ from net patient accounts receivable recorded in the accompanying statements of net position. Accounts are considered delinquent and subsequently written off as bad debts based on specific circumstances of each account.

Supplies Inventory. Supplies inventory consists of medical, pharmaceutical, and dietary supplies and is stated at the lower of cost (using the first-in, first-out method) or market value.

Capital Assets and Depreciation. Capital assets are recorded at cost. Typically, personal property and equipment costing \$5,000 or more are capitalized in accordance with Section 12-6-10, NMSA 1978, in addition to outlays for items that significantly extend the useful life of a capital asset. Costs incurred for repair and maintenance are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Land improvements	10-20 years
Buildings and improvements	10-40 years
Equipment	5-10 years

Accrued Liabilities. Accrued expenses consist of wages and benefits payable to employees and certain professional fees payable as of June 30, 2018 and 2017.

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences. The District accrues paid time off (PTO) of 22.85 to 36.20 days per year, based on length of service, hours of service and job classification, for substantially all employees. After one year of service, employees are eligible to cash out up to 40 hours of PTO at 80% of its value. Employees must maintain a balance of at least 80 hours of PTO after cashing out. Accordingly, all accrued compensated absences are current liabilities and are shown as such on the statement of net position. After six months of service, accrued PTO is payable to employees upon termination at 100% of the accrued balance up to 350 hours. Employees whose positions are eliminated through a reduction in force or reorganization, or whose hours drop below ten hours per week, are paid the full amount of accrued PTO on the effective date of termination.

Net Patient Service Revenue. Patient services rendered at the long-term care facility are rendered primarily to Medicaid program beneficiaries and are reimbursed based on per diem rates. For the clinics, the District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Ad Valorem Taxes. Ad valorem taxes are collected by Colfax County on behalf of the District. Ad valorem taxes are considered imposed non-exchange transactions under GASB Statement No. 33 and, therefore, are recorded by the District in the period for which the taxes are levied, based on amounts reported by Colfax County to the District.

Grant Revenue. Grant revenue consists of amounts received from the State of New Mexico. Such receipts are considered voluntary non-exchange transactions in accordance with GASB Statement No. 33, which requires that grants with eligibility requirements are not recognized until such time that all eligibility requirements have been met.

Charity Care. The District provides care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the District's charity care policy. Since the District does not expect or pursue payment, estimated charges for charity care are excluded from net patient service revenue. Total foregone charges for charity care were immaterial in 2018 and 2017. Additionally, the District accepts all patients who are covered by governmental indigent programs. Such indigent programs typically remit amounts substantially less than established rates.

Budgets and Budgetary Accounting. Prior to the beginning of the fiscal year, an accrual basis budget is prepared. Upon Board of Trustees (the "Board") approval, the budget is sent to the State of New Mexico Department of Finance and Administration (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when the prior-year fund balances are known.

Expenditures cannot exceed the total budget. Any budget amendments are approved by the Board and sent to DFA for their approval. The Board is authorized to transfer budgeted amounts between departments within a fund; however, any revisions that alter the total expenditures must be communicated to DFA. For the year ended June 30, 2018, total actual operating expenses did not exceed budgeted operating expenses. For the year ended June 30, 2017, total actual operating expenses exceeded budgeted operating expenses.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes. As a New Mexico Special Hospital District, the District is exempt from federal and state income tax.

NOTE 3. 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. In accordance with Section 6-10-17, NMSA 1978, the District is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of \$250,000. The District's policy is to require collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. As of June 30, 2018, the District had deposits with a bank balance of \$573,549, including \$9,491 of patient trust funds in the District's agency fund. As of June 30, 2017, the District had deposits with a bank balance of \$610,476, including \$6,933 of patient trust funds in the District's agency fund. For the years ended June 30, 2018 and 2017, there were no amounts subject to custodial credit risk, as all amounts were either insured or collateralized.

NOTE 4. NET PATIENT SERVICE REVENUE

Long-term care services provided by the District are reimbursed by Medicaid on a prospective basis without annual settlements. The District's long-term care facility does not participate in the Medicare program. All clinic and lab services are reimbursed by Medicare on a prospective basis without annual settlements, and reimbursed by Medicaid and other third-party payors based on the lower of usual and customary charges or a fee schedule. Future changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the District.

The following summary details net patient service revenue for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Gross charges		
Inpatient	\$ 1,580,452	\$ 1,712,150
Outpatient	<u>1,428,894</u>	<u>1,159,562</u>
Total gross charges	3,009,346	2,871,712
Contractual adjustments and provision for uncollectible accounts	<u>(1,107,922)</u>	<u>(837,646)</u>
Net patient service revenue	<u><u>\$ 1,901,424</u></u>	<u><u>\$ 2,034,066</u></u>

NOTE 5. AD VALOREM TAXES

Hospital District Mill Levy. The New Mexico Hospital Funding Act (the "Act"), adopted in 1980 and amended in 1981, allows for counties to provide expanded tax support to be used for operations and maintenance of qualified hospitals within the special hospital district. The District first received mill levy revenues in 1988 and has received them each year since. Mill levy taxes associated with the current fiscal period are considered to be

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5. AD VALOREM TAXES (CONTINUED)

susceptible to accrual and therefor have been recognized as revenues of the current fiscal period. Management believes that mill levies were used in accordance with the provisions of the Act. In 2018 and 2017, the County assessed a mill levy of 4.25% per every \$1,000 of commercial and residential property values within the County's jurisdiction. Property taxes attach an enforceable lien on property as of January 1. Tax notices are sent to property owners by November 1 of each year to be paid in whole or in two installments by November 10 and April 10 of each year. Colfax County (County) collects taxes for the District and distributes them once per month.

Additional delinquent mill levy taxes were recognized in 2017 as the County recently upgraded the capability of its property tax software and was able to provide, for the first time, the District accurate outstanding Hospital District Mill Levy receivables by year (back ten years) at June 30, 2017. Prior to the 2017, accurate Hospital District Mill Levy receivable amounts were not measurable or available and, accordingly, management conservatively recorded previous year-end mill levy receivables and revenue. No allowance has been recorded as management expects all material mill levy amounts will be collected.

Oil and Gas Production and Equipment Mill Levy. The County also assesses a mill levy of 4.25% per every \$1,000 on the assessed value of the equipment used in production of oil, natural gas, carbon dioxide and non-hydrocarbon gas, and on those products severed and sold from each production unit. These tax collections are assessed monthly and distributed the third month after the business activity month.

Ad valorem taxes revenue recognized for the year ended June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Hospital District Mill Levy	\$ 2,028,909	\$ 2,156,816
Oil and Gas Production Mill Levy	90,396	93,830
Oil and Gas Production Equipment Mill Levy	<u>14,847</u>	<u>16,542</u>
Total	<u>\$ 2,134,152</u>	<u>\$ 2,267,188</u>

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6. CAPITAL ASSETS

Capital assets activity of the District for the year ended June 30, 2018 was as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets not being depreciated				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	117,253	89,450	-	206,703
Total capital assets not being depreciated	<u>159,190</u>	<u>89,450</u>	<u>-</u>	<u>248,640</u>
Capital assets being depreciated				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,667,566	-	-	1,667,566
Equipment	541,593	7,770	-	549,363
Total capital assets being depreciated	<u>2,380,706</u>	<u>7,770</u>	<u>-</u>	<u>2,388,476</u>
Accumulated depreciation				
Land improvements	(97,269)	(7,251)	-	(104,520)
Building and improvements	(1,156,654)	(48,281)	-	(1,204,935)
Equipment	(427,071)	(31,472)	-	(458,543)
Total accumulated depreciation	<u>(1,680,994)</u>	<u>(87,004)</u>	<u>-</u>	<u>(1,767,998)</u>
Total capital assets being depreciated, net	<u>699,712</u>	<u>(79,234)</u>	<u>-</u>	<u>620,478</u>
Capital assets, net	<u>\$ 858,902</u>	<u>\$ 10,216</u>	<u>\$ -</u>	<u>\$ 869,118</u>

Capital assets activity of the District for the year ended June 30, 2017 was as follows:

Capital assets not being depreciated				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	117,253	-	-	117,253
Total capital assets not being depreciated	<u>159,190</u>	<u>-</u>	<u>-</u>	<u>159,190</u>
Capital assets being depreciated				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,658,039	9,527	-	1,667,566
Equipment	520,170	21,423	-	541,593
Total capital assets being depreciated	<u>2,349,756</u>	<u>30,950</u>	<u>-</u>	<u>2,380,706</u>
Accumulated depreciation				
Land improvements	(89,650)	(7,619)	-	(97,269)
Building and improvements	(1,087,770)	(68,884)	-	(1,156,654)
Equipment	(406,325)	(20,746)	-	(427,071)
Total accumulated depreciation	<u>(1,583,745)</u>	<u>(97,249)</u>	<u>-</u>	<u>(1,680,994)</u>
Total capital assets being depreciated, net	<u>766,011</u>	<u>(66,299)</u>	<u>-</u>	<u>699,712</u>
Capital assets, net	<u>\$ 925,201</u>	<u>\$ (66,299)</u>	<u>\$ -</u>	<u>\$ 858,902</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7. ACCRUED COMPENSATED ABSENCES

A schedule of changes in the District's accrued compensated absences for the year ended June 30, 2018 is as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>\$ 73,524</u>	<u>\$ 99,464</u>	<u>\$ (102,150)</u>	<u>\$ 70,838</u>	<u>\$ 70,838</u>

A schedule of changes in the District's accrued compensated absences for the year ended June 30, 2017 is as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>\$ 100,186</u>	<u>\$ 131,548</u>	<u>\$ (158,210)</u>	<u>\$ 73,524</u>	<u>\$ 73,524</u>

NOTE 8. CONTINGENCIES

Healthcare Regulatory Environment. The healthcare industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. The government continues to conduct reviews and investigations of allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the District is following fraud and abuse as well as other applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted to assure health insurance portability, guarantee security and privacy of health information, and enforce standards for health information. Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, several of the HIPAA security and privacy requirements have been expanded, including business associates being subject to civil and criminal penalties and enforcement proceedings for violations of HIPAA. Management believes that the District is following all applicable provisions of HIPAA and HITECH.

Litigation. In the ordinary course of business, claims alleging malpractice and other matters may have been filed against the District. Claims may also be filed for incidents that have occurred, including some of which the District is not presently aware. It is not possible to estimate the likelihood and amount of such potential claims.

Risk Management. The District has commercial insurance policies for directors' and officers' liability and employment practice liability through Allied World Specialty Insurance Company through August 4, 2018. The District is covered through CNA Insurance for general liability and malpractice through June 1, 2018. Workers'

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8. CONTINGENCIES (CONTINUED)

compensation is covered through the New Mexico Hospital Workers' Compensation group through December 31, 2018. The policy provides coverage for hospital liability and general liability up to \$2 million and up to certain limits for workers' compensation. Current coverage is expected to cover the full amount of any malpractice liability claims and workers' compensation claims. Accordingly, no accrual has been recorded for any such claims in the accompanying financial statements. Payments for malpractice, workers' compensation, and other similar insurance coverage during the years ending June 30, 2018 and 2017, approximated \$146,000 and \$139,000, respectively. Settled claims have not exceeded insurance coverage in any of the three preceding years.

Events could occur in the near term which could cause malpractice, workers' compensation, or management's other litigation claim estimates to change materially.

Grants. Grant awards from governmental entities are subject to audits. Such audits could result in claims against the District for disallowed costs or non-compliance with grantor restrictions. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time; although, the District expects such amounts, if any, to be immaterial.

Ad Valorem Taxes. The current mill levy expires December 31, 2019 and is voted on by general ballot every four years.

NOTE 9. CONCENTRATIONS OF CREDIT RISK

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management believes that estimates made for the allowance for doubtful accounts are adequate.

Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance for doubtful accounts will change by a material amount in the near term.

The District recognizes that revenue and receivables from government agencies are significant to its operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

	<u>2018</u>		<u>2017</u>	
Medicaid	\$ 172,522	47%	\$ 270,935	52%
Self-pay	70,377	19%	105,188	20%
Commercial insurance and other	80,819	22%	99,075	19%
Medicare	<u>47,244</u>	<u>12%</u>	<u>49,019</u>	<u>9%</u>
	370,962	100%	524,217	<u>100%</u>
Allowance	<u>(70,111)</u>		<u>(72,756)</u>	
Patient accounts receivable, net of allowance for estimated uncollectible accounts	<u>\$ 300,851</u>		<u>\$ 451,461</u>	

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10. DEFINED CONTRIBUTION RETIREMENT PLAN

On January 1, 2016, the District adopted a 457 plan. All employees are eligible to participate in the plan after six months of continuous employment. The plan allows employees to defer a portion of their annual compensation pursuant to Section 457 of the Internal Revenue Code. Employee and employer contributions to the plan for the year ended June 30, 2018 were \$33,994 and \$20,067, respectively. Employee and employer contributions to the plan for the year ended June 30, 2017 were \$68,503 and \$36,447, respectively.

NOTE 11. REVOLVING LINE-OF-CREDIT

In September 2014, the District obtained a \$250,000 revolving line-of-credit with a financial institution carrying a variable interest rate of 2.00% over the Prime Rate, not to exceed the lessor of 5.50% per annum or the maximum rate allowed by applicable law. In April 2018, the revolving line-of-credit was increased to \$500,000. As of June 30, 2018, and 2017, the District had no outstanding balance on the line-of-credit. The line-of-credit is not secured by any of the District's assets. The interest rate at June 30, 2018 and 2017 was 4.75% and 3.5%, respectively. This agreement expires on April 5, 2019.

NOTE 12. FUTURE OPERATIONS

The District has experienced operating losses in recent years. Management is confident that the District will continue as a going concern through fiscal year 2019 and beyond because of the following:

- The District received an increase in its approved Low Nursing Facility (LNF) rate. The increase was from \$168 to \$172 per patient day, or a 2.7% increase. The increase per patient day was effective January 1, 2018. Additionally, the LNF rate will increase to \$185 per patient day effective in July of 2018 for Medicaid and September of 2018 for private pay.
- The District anticipates the continued receipt of ad valorem taxes revenue from the Colfax County Treasurer's office in fiscal year 2019.
- The District's nursing staff at its long-term care facility in Springer, New Mexico is at full capacity and management does not anticipate significant agency staffing costs in the future. This should maintain lower operating expenses in fiscal year 2018, as the cost of agency staffing is well above typical salary expenses.

NOTE 13. ECONOMIC DEPENDENCY

The District is significantly dependent on the continued receipt of ad valorem taxes (Note 5), and management believes the voters of Colfax County will continue to support the tax. Significant reductions in this source of funding would negatively impact the ability of the District to continue its existing levels of service.

SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenue				
Net patient service revenue	\$ 2,082,608	\$ 2,082,608	\$ 1,901,424	\$ (181,184)
Operating Expenses				
Salaries, wages and employee benefits	2,590,147	2,590,147	2,476,410	113,737
Purchased services and other	858,656	848,656	853,990	(5,334)
Supplies	420,318	420,318	362,249	58,069
Depreciation	101,206	101,206	87,004	14,202
Insurance	141,917	151,917	146,475	-
Total operating expenses	<u>4,112,244</u>	<u>4,112,244</u>	<u>3,926,128</u>	<u>180,674</u>
Operating loss	<u>(2,029,636)</u>	<u>(2,029,636)</u>	<u>(2,024,704)</u>	<u>(510)</u>
Non-operating Revenue (Expense)				
Ad valorem taxes	1,979,612	1,979,612	2,134,152	154,540
Grants and other	63,006	63,006	91,398	28,392
Interest expense	(1,500)	(1,500)	-	1,500
Total non-operating revenue	<u>2,041,118</u>	<u>2,041,118</u>	<u>2,225,550</u>	<u>184,432</u>
Change in net position	<u>\$ 11,482</u>	<u>\$ 11,482</u>	<u>200,846</u>	<u>\$ 183,922</u>
Net position, beginning of year			<u>2,112,011</u>	
Net position, end of year			<u>\$ 2,312,857</u>	

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America. Even though the budget for expenses is broken down to provide for better analysis, the legal budget adopted is for the category of total operating expenses.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenue				
Net patient service revenue	\$ 2,015,882	\$ 2,015,882	\$ 2,034,066	\$ 18,184
Operating Expenses				
Salaries, wages and employee benefits	2,487,263	2,559,263	2,539,440	19,823
Purchased services and other	974,712	874,712	893,503	(18,791)
Supplies	393,882	433,882	448,229	(14,347)
Depreciation	98,972	98,972	100,241	(1,269)
Insurance	141,917	141,917	139,428	2,489
Total operating expenses	4,096,746	4,108,746	4,120,841	(12,095)
Operating loss	(2,080,864)	(2,092,864)	(2,086,775)	6,089
Non-operating Revenue (Expense)				
Ad valorem taxes	2,026,016	2,026,016	2,267,188	241,172
Grants and other	104,946	104,946	102,476	(2,470)
Interest expense	(2,864)	(2,864)	(1,173)	1,691
Total non-operating revenue	2,128,098	2,128,098	2,368,491	240,393
Change in net position	\$ 47,234	\$ 35,234	281,716	\$ 246,482
Net position, beginning of year			1,830,295	
Net position, end of year			\$ 2,112,011	

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America. Even though the budget for expenses is broken down to provide for better analysis, the legal budget adopted is for the category of total operating expenses.

OTHER SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
ASSETS				
Cash and cash equivalents	\$ 9,490	\$ 40,211	\$ (40,210)	\$ 9,491

LIABILITIES				
Funds held for patients	\$ 9,490	\$ 40,211	\$ (40,210)	\$ 9,491

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
ASSETS				
Cash and cash equivalents	\$ 5,412	\$ 44,240	\$ (40,162)	\$ 9,490

LIABILITIES				
Funds held for patients	\$ 5,412	\$ 44,240	\$ (40,162)	\$ 9,490

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2018**

Individual Deposit Accounts:		Wells Fargo		International Bank		U.S. Bank	
Account Name	Account Type	Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
LTC Operating Account	Interest-bearing checking	\$ 306,653	\$ 673,507	\$ -	\$ -	\$ -	\$ -
LTC Resident Account	Noninterest bearing checking	9,491	9,491				
Payroll	Noninterest bearing checking	10,000	10,000	-	-	-	-
Moreno Valley Operating	Noninterest bearing checking	-	-	192,284	192,284	-	-
Cimarron Operating	Noninterest bearing checking	-	-	17,151	17,151	-	-
Athena Lockbox	Noninterest bearing checking	-	-	-	-	37,970	37,970
Total deposits		<u>326,144</u>	<u>\$ 692,998</u>	<u>209,435</u>	<u>\$ 209,435</u>	<u>37,970</u>	<u>\$ 37,970</u>
FDIC insurance		(250,000)		(209,435)		(37,970)	
Total uninsured public funds		<u>\$ 76,144</u>		<u>\$ -</u>		<u>\$ -</u>	
Collateral Requirement - 50% (Section 6-10-17)		\$ 38,072		\$ -		\$ -	
Total pledged collateral		<u>94,378</u>		<u>-</u>		<u>-</u>	
Amount (under)/over collateralized for 50% requirement		<u>\$ 56,306</u>		<u>\$ -</u>		<u>\$ -</u>	

	Proprietary		
	Fund	Agency Fund	Total
Bank balance	\$ 564,058	\$ 9,491	\$ 573,549
Reconciling items	366,896	-	366,896
Petty cash	1,000	-	1,000
Book balance	<u>\$ 931,954</u>	<u>\$ 9,491</u>	<u>\$ 941,445</u>

Pledged collateral:

Type of Security	CUSIP Number	Maturity	Fair Value
FMAC FGPC	3132GSH69	4/1/2042	<u>\$ 94,378</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS AND PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2017**

Individual Deposit Accounts:		Wells Fargo		International Bank		U.S. Bank	
		Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
Account Name	Account Type						
LTC Operating Account	Interest-bearing checking	\$ 347,896	\$ 345,099	\$ -	\$ -	\$ -	\$ -
LTC Resident Account	Noninterest bearing checking	6,933	6,693				
Payroll	Noninterest bearing checking	9,726	13,517	-	-	-	-
Moreno Valley Operating	Noninterest bearing checking	-	-	236,087	236,087	-	-
Cimarron Operating	Noninterest bearing checking	-	-	7,129	7,129	-	-
Athena Lockbox	Noninterest bearing checking	-	-	-	-	2,705	2,705
Total deposits		<u>364,555</u>	<u>\$ 365,309</u>	<u>243,216</u>	<u>\$ 243,216</u>	<u>2,705</u>	<u>\$ 2,705</u>
FDIC insurance		(250,000)		(243,216)		(2,705)	
Total uninsured public funds		<u>\$ 114,555</u>		<u>\$ -</u>		<u>\$ -</u>	

Collateral Requirement - 50% (Section 6-10-17)	\$ 57,278	\$ -
Total pledged collateral	<u>130,586</u>	<u>-</u>
Amount (under)/over collateralized for 50% requirement	<u>\$ 73,308</u>	<u>\$ -</u>
	Proprietary	
	Fund	Agency Fund
Bank balance	\$ 603,543	\$ 6,933
Reconciling items	(2,796)	2,557
Petty cash	1,000	-
Book balance	<u>\$ 601,747</u>	<u>\$ 9,490</u>
		<u>\$ 611,237</u>

Pledged collateral:

Type of Security	CUSIP Number	Maturity	Fair Value
FNMA - Mortgage Backed Securities	31294MBP5	11/1/2025	\$ 2,569
FNMA - Mortgage Backed Securities	3138AQB96	10/1/2026	15,831
FNMA - Mortgage Backed Securities	3138AV6U4	12/1/2026	112,186
			<u>\$ 130,586</u>

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 *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
South Central Colfax County Special Hospital District
Springer, New Mexico and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, 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 business-type activities and agency fund of South Central Colfax County 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 the Budgetary Comparison Statements of the District, presented as supplementary information 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 to expressing our opinions on the financial statements, but not to expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a material weakness as item 2018-001.

Board of Trustees
South Central Colfax County Special Hospital District
and Mr. Wayne Johnson
New Mexico State Auditor

Compliance and Other Matters

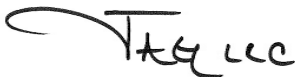
As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2018-002.

The District’s Response to Findings

The District’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 15, 2018

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

Prior Year	Description	Current Year
2016-002	Actual Expenditures Exceeded Budget Expenditures	Cleared
2017-001	Reconciliation of Clinic Patient Accounts Receivable	Cleared

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2018**

2018-001 — RECONCILIATION OF ACCOUNTS RECEIVABLE

TYPE OF FINDING: Material Weakness

CONDITION

During our internal control and substantive testing of cash receipts, revenue, and accounts receivable, we noted two areas of concern that existed during the year under audit:

First, the District uses Athena medical billing software at its two clinics. The long-term care (LTC) facility uses PointClickCare medical billing software. These systems maintain all historical and relevant patient information relating to the services being provided, including the monitoring of billing information. On May 1, 2018, the LTC transitioned from NTT Data Systems medical billing software to PointClickCare. It was not until the July of 2018 month-close process that management discovered that data had been improperly migrated, including certain balances forwards that were not carried to the new system, duplicate information, and other discrepancies. These errors, amounting to approximately \$42,000, were identified by management and corrected after manually evaluating each receivable. The discrepancies were not discovered during the May and June 2018 monthly close processes.

Secondly, during the monthly close process, a reconciliation is performed for activity during that month, where reports are generated from these systems and the information is compiled to post to the general ledger in QuickBooks for receivables and revenues. The general ledger includes patient receivables accounts for each location, as well as a patient accounts receivable clearing account. The clearing account is a contra account that includes some payments that have been received from the payor but have yet to be applied to patient accounts. However, the balance at June 30, 2018 of approximately \$61,000 is higher than can be attributed to those payments and is, therefore, unreconciled to the receivables detail reports.

CRITERIA

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, including properly recording and reconciling revenues and receivables.

CAUSE

The current internal control system did not sufficiently identify all reconciling amounts. Also, while other amounts were reconciled after June 30, they were not caught and reconciled in a timely manner.

EFFECT

Payments have been received by the District that have not been attributed correctly to either patient accounts in the billing software, or to miscellaneous revenue. Without an accurate and timely reconciliation of accounts receivable, the District cannot be sure of what amounts have been paid and what amounts are outstanding. The funds received into their bank account are always higher than expected, causing an unknown source of revenue. We believe revenue is accurately stated as the District does have the cash in their bank account and the amounts seem to be incentive payments.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2018**

2018-001 — RECONCILIATION OF ACCOUNTS RECEIVABLE (CONTINUED)

AUDITOR'S RECOMMENDATION

We recommend that the District evaluate the month-end closing process to identify the cause for the unreconciled differences arising between the billing software and the general ledger. Each receivable will need to be manually re-evaluated to identify discrepancies.

MANAGEMENT'S RESPONSE

Corrective Action: Management is evaluating the month-end closing process and is working to identify the cause for the unreconciled differences. Current findings have shown incorrect filters being used to run the reports from the billing software causing some of the posted payments not to be captured for transfer to the general ledger. This will continue to be monitored closely at each month-end to ensure there are no other factors contributing to the unreconciled differences between the billing software and the general ledger.

Due Date of Completion: June 30, 2019

Responsible Party: District Administrator

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2018**

2018-002 — GOVERNMENTAL CONDUCT ACT

TYPE OF FINDING: Non-Compliance

CONDITION

In September 2017, the Board of Trustees for the District initiated a request for proposals for the demolition of the Kit Carson Motel, located on Highway 64 in Cimarron, NM. At the September 25, 2017 board meeting, all board members present approved a proposal from a construction company. The total amount for the project, approved and paid, was \$89,450. Of this amount, \$1,800 was subcontracted to a construction firm owned by a District board member, who did not abstain from approving the proposal. Of the amount subcontracted, the board member donated the entire \$1,800 to the Colfax Foundation. The Board did not approve any subcontracting on this project.

CRITERIA

According to language within the request for proposal (RFP) for this demolition project: “the company that is awarded this contract will be able to subcontract portions of these requirements with vendors approved by the board.”

Per the Governmental Conduct Act (GCA) NMSA 1978 Section 10-16-2(I): “Public employees” include employees of local governmental agencies, officers, elected or appointed officials, and those eligible to receive per diem or mileage (including board members). Public employment or office is a public TRUST. Officers and employees must maintain integrity and high ethical standards. Public officers and employees shall:

Section 10-16-3(A): Not use their position to advance personal or private interests, and

Section 10-16-3(C): Disclose real or potential conflicts of interest.

Section 10-16-4(B,C): Not engage in an official act directly affecting personal financial interest (unless greater benefit accrues to the public) or acquire financial interest which will be affected by the officer’s or employee’s official action.

Also, while this procurement was not subject to the provisions of the New Mexico State Procurement Code under the hospital and healthcare exemption (NMSA 1978, Section 13-1-98.1), internal policy states that the District shall “ensure that all purchase agreements pursue the best interest of the facility.”

CAUSE

The District has not implemented complete training and monitoring for compliance with the GCA.

EFFECT

Although in the end the board member did not benefit personally because he donated the funds to the Colfax Foundation, certain requirements were not followed and caused a lack of transparency, which generated a complaint from the public. Additionally, the board member was not required to return the funds to the Foundation and his vote on the main contract gave the appearance of a conflict of interest. The GCA has consequences for violations of its provisions. Lastly, the Board did not have had the opportunity to prevent a related party transaction by voting to not approve this subcontract or to provide transparency to the public regarding the transaction.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2018**

2018-002 — GOVERNMENTAL CONDUCT ACT (CONTINUED)

AUDITOR'S RECOMMENDATION

We recommend that the District Board and management become familiar with the requirements and add steps to ensure compliance and accountability for compliance. By abstaining from votes, following RFP requirements, and adding full transparency of transactions, this helps the public maintain trust in the District.

MANAGEMENT'S RESPONSE

Corrective Action: The District Board and management have all reviewed the GCA requirements and understand what they should have done different and what they need to do in the future as stated above in the auditor's recommendation to maintain full transparency.

Due Date of Completion: June 30, 2019

Responsible Party: District Administrator

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
EXIT CONFERENCE
JUNE 30, 2018**

An exit conference was held on October 12, 2018, with the following attending:

SCCASHD Board of Trustees

Bruce Jassman, Board Member

SCCASHD Administration

Kaycee Sandoval, District Administrator

Jaramillo Accounting Group LLC

Audrey J. Jaramillo, CPA, CFE
Justin Mehnert, Audit Senior

Jaramillo Accounting Group (JAG) assisted in the preparation of the financial statements presented in this report. 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.