



**South Central Colfax County
Hospital District**

2009 Financial Statements,
Supplementary Information and
Independent Auditors' Reports

South Central Colfax County Hospital District

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South Central Colfax County Hospital District
June 30, 2009

Board of Trustees

Marian Vigil
Steve Briggs
William Conley
Elliot Wayne Baker
Frederick Martinez

Chairperson
Vice Chairperson
Secretary/Treasurer
Trustee
Trustee

Principal Employee

Bill Norris

District Administrator

Independent Auditors' Report

Board of Trustees and the Management of
South Central Colfax County Hospital District
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County Hospital District (the "District"), as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. We have also audited the schedule of revenues, expenses and changes in net assets – budget and actual and the schedule of changes in fiduciary assets and liabilities – agency fund presented as supplementary information for the years ended June 30, 2009 and 2008. These financial statements and schedules are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements and schedules 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2009 and 2008, and where applicable, the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedules referred to above present fairly, in all material respects, the budget comparison and the changes in agency fund assets and liabilities of the District for the years ended June 30, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, budget comparison and changes in fiduciary assets and liabilities of the District. The accompanying schedule of individual deposit accounts and pledged collateral as listed in the table of contents is presented for purposes of additional analysis and to meet the requirements of the New Mexico Office of the State Auditor, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDWLLC

September 21, 2009

Required Supplementary Information
Management's Discussion and Analysis

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2009

This section of the financial report presents management's discussion and analysis of South Central Colfax County Hospital District's (the "District") financial performance during the fiscal year that ended June 30, 2009. Please read it in conjunction with the District's basic financial statements, which follow this section.

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 assets and the statements of revenues, expenses, and changes in net assets 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 assets represent the difference between its assets and liabilities and are one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial 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 a fiduciary 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 ASSETS

	<u>2009</u>	2008	2007
Current assets	\$ 368,628	\$ 493,201	\$ 602,356
Noncurrent assets	<u>1,206,759</u>	<u>1,223,879</u>	<u>1,111,987</u>
Total assets	<u>\$ 1,575,387</u>	<u>\$ 1,717,080</u>	<u>\$ 1,714,343</u>
Current liabilities	<u>\$ 519,100</u>	<u>\$ 599,830</u>	<u>\$ 392,042</u>
Net assets			
Invested in capital assets	1,206,759	1,223,879	1,111,987
Unrestricted and undesignated	<u>(150,472)</u>	<u>(106,629)</u>	<u>210,314</u>
Total net assets	<u>1,056,287</u>	<u>1,117,250</u>	<u>1,322,301</u>
Total liabilities and net assets	<u>\$ 1,575,387</u>	<u>\$ 1,717,080</u>	<u>\$ 1,714,343</u>

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2009

The District's total assets decreased by approximately \$142,000 in 2009 compared to 2008. This decrease in total assets is due primarily to the following:

- Cash and cash equivalents decreased by approximately \$1,600 due to a combination of less patient service revenue and less cash paid to suppliers, offset by an increase in cash paid to employees. In addition, cash from ad valorem taxes and grants increased in 2009.
- Grants receivable decreased by approximately \$22,000 due to the timing of the payment received from the Department of Finance and Administration.
- Ad valorem taxes receivable decreased by approximately \$195,000 due to timing of mill levy receipts from the County Treasurer's office.
- Capital assets decreased \$17,000 due to depreciation in excess of capital additions.

The above changes were offset as follows:

- Net patient accounts receivable increased by approximately \$90,000 due primarily to a delay in Medicaid payments (Evercare and Amerigroup).

The District's total assets increased by approximately \$3,000 in 2008 compared to 2007. This increase in total assets is due primarily to the following:

- Cash and cash equivalents increased by approximately \$5,000 due to a combination of more patient service revenue, less cash paid to suppliers and less capital assets purchased, offset by an increase in cash paid to employees and a decrease in grant revenue.
- Grants receivable increased by approximately \$24,000 due to the timing of the payment received from the Department of Finance and Administration.
- Capital assets increased by approximately \$112,000 primarily due to expenditures relating to the water/sewer connections for the new primary care clinic.

The above changes were offset as follows:

- Ad valorem taxes receivable decreased by approximately \$152,000 due to timing of mill levy receipts from the County Treasurer's office.

The District's total liabilities decreased approximately \$81,000 in 2009 compared to 2008, due primarily to the timing of payments to the management company.

The District's total liabilities increased approximately \$208,000 in 2008 compared to 2007, primarily due to the timing of payments to the management company.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2009

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total operating revenues	\$ 1,675,528	\$ 1,750,084	\$ 1,495,124
Total operating expenses	<u>3,384,541</u>	<u>3,466,831</u>	<u>3,080,886</u>
Operating loss	(1,709,013)	(1,716,747)	(1,585,762)
Nonoperating revenues	<u>1,648,050</u>	<u>1,511,696</u>	<u>1,516,907</u>
Change in net assets	(60,963)	(205,051)	(68,855)
Beginning net assets	<u>1,117,250</u>	<u>1,322,301</u>	<u>1,391,156</u>
Total net assets, year-end	<u>\$ 1,056,287</u>	<u>\$ 1,117,250</u>	<u>\$ 1,322,301</u>

Operating revenues decreased by approximately \$75,000 in 2009 compared to 2008 primarily due to a decrease in census at the long-term care facility, partially offset by an increase in rates.

Nonoperating revenues increased by approximately \$136,000 in 2009 compared to 2008 primarily due to an increase in mill levy revenues of approximately \$134,000, which was the result of taxes levied on oil and gas drilling.

Operating expenses decreased by approximately \$82,000 in 2009 compared to 2008 as a result of the following:

- Salaries, wages and employee benefits decreased by approximately \$101,000 due to decreasing the number of full-time employees in order to reduce costs for the year.
- Supplies decreased by approximately \$39,000 primarily due to a decrease in the usage of supplies resulting from lower census numbers in 2009.

The above changes were partially offset as follows:

- Purchased services and other expense increased by approximately \$39,000 primarily due to the use of agency nurses in 2009.
- Depreciation expense increased by approximately \$21,000 due to the new clinic in Moreno Valley.

As the District completed the year, total net assets decreased by approximately \$61,000 from \$1,117,250 at June 30, 2008 to \$1,056,287 at June 30, 2009.

Operating revenues increased by approximately \$255,000 in 2008 compared to 2007 primarily due to an increase in census at the long-term care facility and an increase in rates.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Nonoperating revenues decreased by approximately \$5,000 in 2008 compared to 2007 primarily due to a \$119,000 decrease in funding from the State of New Mexico Department of Finance and Administration. This grant was provided for the specific purpose of constructing the new primary care clinic, and grant income decreased because there were fewer reimbursable expenditures incurred by the District in 2008. This was partially offset by an increase in mill levy revenues of approximately \$114,000, which was the result of taxes levied on oil and gas drilling.

Operating expenses increased by approximately \$386,000 in 2008 compared to 2007 as a result of the following:

- Salaries, wages and employee benefits increased by approximately \$85,000 due to an increase in medical insurance costs and staffing shortages, which required overtime, specialty pay and PRN staffing.
- Purchased services and other expense increased by approximately \$244,000 primarily due to the use of agency nurses in 2009.
- Supplies increased by approximately \$55,000 primarily due to an increase in raw food expenses as a result of an increase in shipping and market costs, and an increase in medical supplies.

Highlights of Performance vs. Fiscal Year 2009 Budget

- Total net patient service revenue was under budget by approximately \$297,000 due to lower patient census than anticipated.
- Salaries, wages and benefits was under budget by approximately \$375,000 due to staffing shortages.
- Purchased services and other expenses were over budget by approximately \$234,000 due to the unanticipated use of agency nurses in 2009.
- Supply costs were under budget by approximately \$81,000 primarily due to less than expected medical and food supplies usage.
- Ad valorem taxes (mill levy) income was over budget by approximately \$2,500 due to the higher than anticipated oil and gas revenues in Colfax County.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Capital Assets

At the end of fiscal year 2009, the District had approximately \$1,207,000, net of accumulated depreciation, invested in capital assets, including land and buildings, land and building improvements, and furniture and equipment. The amount represents a net decrease of approximately \$17,000 from the prior year, due to current year depreciation in excess of capital asset additions. The Moreno Valley Clinic was placed into service in 2009, and the related construction in progress was moved to land improvements, building and improvements, and equipment. For fiscal year 2008, the increase of \$112,000 from 2007 was due to an increase of approximately \$145,000 to the construction in progress account, mainly relating to the work being done on the new clinic. See Note 6 to the basic financial statements for further information about capital assets.

Economic Factors and 2010's Budget and Rates

Key factors affecting 2010's revenues and expenses are as follows:

- Based on licensed bed capacity and prior trends, census is projected at an average of 25 residents, compared to a total licensed capacity of 32 beds and a 2009 actual average census of approximately 28 residents.
- Based on confirmed grants through the Rural Primary Health Care Act (RPHCA), the District expects to continue to receive total grant revenue of approximately \$82,700 for the two clinics.
- The lab budget is based on this year's actual revenue and expense as next year's operations are expected to be similar to current year levels.
- Both clinics, Moreno Valley and Cimarron, are projected to remain consistent with very little growth.
- All personnel are budgeted to receive a 2.5% raise effective in September 2009.
- Insurance costs are projected to remain consistent with 2009 rates.
- Management expects an increase in total net assets from 2009 to 2010, slightly above break-even.

Contacting the District's Financial Management

This financial report is designed to provide the District's Board of Directors, 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 Hospital District
P.O. Box 458
Springer, New Mexico 87747
(575) 483-2443

Basic Financial Statements

South Central Colfax County Hospital District
Statements of Net Assets
June 30,

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 18,886	\$ 20,492
Patient accounts receivable, net of estimated uncollectible accounts of \$102,000 in 2009 and \$51,000 in 2008	227,109	137,322
Ad valorem taxes and other receivables	43,814	233,103
Grants receivable	13,043	35,083
Supplies inventory and other current assets	65,776	67,201
Total current assets	368,628	493,201
Capital assets, net	1,206,759	1,223,879
Total assets	\$ 1,575,387	\$ 1,717,080
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 122,346	\$ 96,873
Due to management company	245,579	345,331
Other accrued expenses	27,461	23,801
Accrued compensated absences	123,714	133,825
Total current liabilities	519,100	599,830
Net assets		
Invested in capital assets	1,206,759	1,223,879
Unrestricted	(150,472)	(106,629)
Total net assets	1,056,287	1,117,250
Total liabilities and net assets	\$ 1,575,387	\$ 1,717,080

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

South Central Colfax County Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,

	2009	2008
Operating Revenues		
Net patient service revenue	<u>\$ 1,675,528</u>	<u>\$ 1,750,084</u>
Operating Expenses		
Salaries, wages and employee benefits	1,997,590	2,098,257
Purchased services and other	876,491	837,851
Supplies	337,052	376,087
Insurance	67,855	69,831
Depreciation	<u>105,553</u>	<u>84,805</u>
Total operating expenses	<u>3,384,541</u>	<u>3,466,831</u>
Operating loss	<u>(1,709,013)</u>	<u>(1,716,747)</u>
Nonoperating Revenues		
Ad valorem taxes	1,565,831	1,432,078
Grants and other	<u>82,219</u>	<u>79,618</u>
Total nonoperating revenues	<u>1,648,050</u>	<u>1,511,696</u>
Change in net assets	(60,963)	(205,051)
Net assets, beginning of year	<u>1,117,250</u>	<u>1,322,301</u>
Net assets, end of year	<u><u>\$ 1,056,287</u></u>	<u><u>\$ 1,117,250</u></u>

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

South Central Colfax County Hospital District
Statements of Cash Flows
For the Years Ended June 30,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 1,585,741	\$ 1,744,094
Cash paid to employees	(2,004,041)	(2,283,607)
Cash paid to suppliers	<u>(1,354,251)</u>	<u>(897,782)</u>
Net cash used by operating activities	<u>(1,772,551)</u>	<u>(1,437,295)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	1,755,120	1,584,185
Grants and other	<u>104,258</u>	<u>55,135</u>
Net cash provided by noncapital financing activities	<u>1,859,378</u>	<u>1,639,320</u>
Cash flows from capital and related financing activities		
Capital asset purchases	<u>(88,433)</u>	<u>(196,697)</u>
Net increase (decrease) in cash and cash equivalents	(1,606)	5,328
Cash and cash equivalents, beginning of year	<u>20,492</u>	<u>15,164</u>
Cash and cash equivalents, end of year	<u>\$ 18,886</u>	<u>\$ 20,492</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,709,013)	\$ (1,716,747)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	105,553	84,805
Changes in assets and liabilities		
Patient accounts receivable	(89,787)	(5,990)
Supplies inventory and other current assets	1,426	(7,151)
Accounts payable	25,473	17,289
Due to management company	(99,752)	235,642
Accrued expenses	3,660	(54,707)
Accrued compensated absences	<u>(10,111)</u>	<u>9,564</u>
Net cash used by operating activities	<u>\$ (1,772,551)</u>	<u>\$ (1,437,295)</u>

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

South Central Colfax County Hospital District
Statements of Fiduciary Assets and Liabilities – Agency Fund
For the Years Ended June 30,

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash	<u>\$ 11,682</u>	<u>\$ 14,957</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 11,682</u>	<u>\$ 14,957</u>

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

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

1) Organization and Operations

South Central Colfax County 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 Sections 4-48A-1 to 4-48A-30, NMSA 1978 Compilation, known as “The Special Hospital District Act.” The District’s operations are funded by revenues from healthcare operations and a mill levy tax assessed 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. The District has no component units.

The District has a management and contract services agreement through which Presbyterian Healthcare Services (PHS) provides certain management services to the District. PHS provides the following centralized services: procurement, human resource management, pharmacy, data processing, and legal counsel. Amounts due to PHS for these services and for expenses incurred on behalf of the District are reflected as due to management company in the accompanying statement of net assets. Management fees approximated \$90,000 in 2009 and \$86,000 in 2008, and are included in purchased services and other in the accompanying statements of revenues, expenses and changes in net assets. Included in the due to management company of \$245,579 and \$345,331 at June 30, 2009 and 2008, respectively, are management fees as well as other reimbursements to the management company for payroll, supplies, and other expenses paid on behalf of the District by the management company.

The management and contract services agreement with PHS is effective through December 31, 2010. During the current contract period, it is PHS’ intent to work with the District to select an alternative provider with a core competency in long-term care to accept the responsibility to operate the District’s health services. PHS will work with the District to transfer operational responsibility when a new provider is selected.

2) Summary of Significant Accounting Policies

Basis of Accounting

The basic 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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Basis of Accounting — continued

Included in the District's basic financial statements are a proprietary fund and a fiduciary fund. Proprietary funds are accounted for on the flow of economic 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 statement of net assets. The District applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District also has elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. Nonoperating revenues, such as ad valorem taxes, grants and investment earnings, result from nonexchange transactions or ancillary activities.

The fiduciary fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting.

Fiduciary Fund

The District's fiduciary 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.

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 basic financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments with an original maturity of three months or less.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Accounts Receivable Allowances

Accounts receivable consist primarily of amounts due from Medicaid, commercial insurance companies, and individual patients. Estimated provisions for doubtful accounts are recorded to the extent it is probable a portion of a particular account will not be collected. In evaluating the collectibility of accounts receivable, the District considers a number of 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.

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

Capital assets are recorded at cost. Chattels and equipment costing over \$5,000 are capitalized in accordance with Section 12-6-10 NMSA 1978, in addition to capital outlays for items that significantly extend the useful life of an 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
Building and improvements	10-40 years
Equipment	5-10 years

Compensated Absences

The District accrues paid time off (PTO) of 25 to 35 days per year, based on years of service and job classification, for substantially all employees. Each year PTO in excess of 40 hours for part-time employees and 80 hours for full-time employees is paid to the employees. Accrued PTO is payable to employees upon termination at 100% of their accrued balance. Employees who resign without giving proper notice, however, are paid at 75% of their accrued balance.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Net Patient Service Revenue

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, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Ad Valorem Taxes

Ad valorem taxes are collected by Colfax County on behalf of the District. Ad valorem taxes are considered imposed nonexchange transactions under Governmental Accounting Standards Board 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 Income

Grant income consists of amounts received from the State of New Mexico. Such receipts are considered voluntary nonexchange transactions in accordance with Statement No. 33. Statement No. 33 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 2009 and 2008.

Additionally, the District accepts all patients who are covered by governmental indigent programs. Such indigent programs typically remit amounts substantially less than established rates.

Accrued Expenses

Accrued expenses consist of wages and benefits payable to employees and certain professional fees payable as of June 30, 2009 and 2008.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

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 legally 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, 2008, total operating expenses exceeded budget by \$210,658. For the year ended June 30, 2009, total operating expenses were within budget.

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 Compilation, the District is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of \$100,000. The District’s policy is to require collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. All of the District’s deposits were insured by the FDIC at June 30, 2009 and 2008. Therefore, the District does not believe it is exposed to custodial credit risk on its deposits.

The composition of cash and cash equivalents as shown on the accompanying statements of net assets as of June 30 follows:

	2009	2008
Carrying amount of deposits	\$ 18,191	\$ 19,797
Cash on hand	695	695
Unrestricted cash and cash equivalents	<u>\$ 18,886</u>	<u>\$ 20,492</u>

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

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:

	2009	2008
Gross charges		
Inpatient	\$ 1,280,881	\$ 1,396,011
Outpatient	414,799	382,543
	1,695,680	1,778,554
Less		
Allowances for uncollectible accounts	14,583	25,650
Un-sponsored charges, including governmental indigent care programs	5,569	2,820
Net patient service revenue	\$ 1,675,528	\$ 1,750,084

5) Ad Valorem Taxes

The New Mexico Hospital Funding Act (the "Act"), adopted in 1980 and amended in 1981, allows for counties to provide expanded tax support to qualified hospitals. 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 susceptible to accrual and so 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 and also that voters of Colfax County will continue to support the additional mill levy tax for the District's purposes.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 41,937	\$ -	\$ -	\$ -	\$ 41,937
Construction in progress	665,705	88,433	-	(754,138)	-
Total capital assets not being depreciated	<u>707,642</u>	<u>88,433</u>	<u>-</u>	<u>(754,138)</u>	<u>41,937</u>
<i>Capital assets being depreciated</i>					
Land improvements	46,337	-	-	122,517	168,854
Building and improvements	944,132	-	4,662	586,568	1,526,038
Equipment	810,541	-	-	45,053	855,594
Total capital assets being depreciated	<u>1,801,010</u>	<u>-</u>	<u>4,662</u>	<u>754,138</u>	<u>2,550,486</u>
<i>Less accumulated depreciation for</i>					
Land improvements	27,257	6,316	-	-	33,573
Building and improvements	606,488	63,329	4,662	-	665,155
Equipment	651,028	35,908	-	-	686,936
Total accumulated depreciation	<u>1,284,773</u>	<u>105,553</u>	<u>4,662</u>	<u>-</u>	<u>1,385,664</u>
Total capital assets being depreciated, net	<u>516,237</u>	<u>(105,553)</u>	<u>-</u>	<u>-</u>	<u>410,684</u>
Capital assets, net	<u>\$ 1,223,879</u>	<u>\$ (17,120)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,206,759</u>

Capital asset activity of the District for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	520,535	145,170	-	665,705
Total capital assets not being depreciated	<u>562,472</u>	<u>145,170</u>	<u>-</u>	<u>707,642</u>
<i>Capital assets being depreciated</i>				
Land improvements	36,937	9,400	-	46,337
Building and improvements	944,132	-	-	944,132
Equipment	774,560	42,127	6,146	810,541
Total capital assets being depreciated	<u>1,755,629</u>	<u>51,527</u>	<u>6,146</u>	<u>1,801,010</u>
<i>Less accumulated depreciation for</i>				
Land improvements	23,930	3,327	-	27,257
Building and improvements	558,741	47,747	-	606,488
Equipment	623,443	33,731	6,146	651,028
Total accumulated depreciation	<u>1,206,114</u>	<u>84,805</u>	<u>6,146</u>	<u>1,284,773</u>
Total capital assets being depreciated, net	<u>549,515</u>	<u>(33,278)</u>	<u>-</u>	<u>516,237</u>
Capital assets, net	<u>\$ 1,111,987</u>	<u>\$ 111,892</u>	<u>\$ -</u>	<u>\$ 1,223,879</u>

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2009, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 133,825</u>	<u>\$ 123,714</u>	<u>\$ 133,825</u>	<u>\$ 123,714</u>	<u>\$ 123,714</u>

A schedule of changes in the District's accrued compensated absences for June 30, 2008, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 124,261</u>	<u>\$ 164,645</u>	<u>\$ 155,081</u>	<u>\$ 133,825</u>	<u>\$ 133,825</u>

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, government 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 in compliance with 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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

8) Contingencies — continued

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to assure health insurance portability, guarantee security and privacy of health information, enforce standards for health information and establish administrative simplification provisions. Management believes that the District is in compliance with all applicable provisions of HIPAA.

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. Accordingly, no accrual has been made for these potential claims.

Risk Management—The District has obtained commercial insurance policies for directors and officers' liability. The District participates in the PHS self-insurance programs for malpractice and workers' compensation. Settled claims have not exceeded insurance coverage in any of the three preceding years.

Malpractice—The District remits premiums to PHS and is covered under PHS's general liability policy. PHS is self-funded for hospital liability and general liability up to \$3 million. Claims exceeding those limits are covered by a \$40 million excess coverage policy. PHS negotiates the excess coverage on an annual basis. Payments to PHS approximated \$62,000 in 2009 and \$65,000 in 2008 for malpractice coverage. Current coverage through PHS is expected to cover the full amount of any malpractice liability claims. Accordingly, no accrual has been recorded for any such claims in the accompanying basic financial statements.

Workers' Compensation—The District remits premiums to PHS and is covered under PHS's workers' compensation policy. PHS is self-funded for workers' compensation up to certain limits. Payments to PHS approximated \$69,950 in 2009 and \$72,400 in 2008 for this coverage. Current coverage through PHS is expected to cover the full amount of any workers' compensation claims. Accordingly, no accrual has been recorded for any such claims in the accompanying basic financial statements.

Grants—Grant awards from governmental entities are subject to audits. Such audits could result in claims against the District for disallowed costs or noncompliance 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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

8) Contingencies — continued

Ad Valorem Taxes—The current mill levy expires December 1, 2011, and is voted on by general ballot every four years. The District is significantly dependent on the continued receipt of these taxes and management believes the voters of Colfax County will continue to support the tax.

9) **Concentrations of Credit Risk**

Receivables—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 collectibility 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 the District’s 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:

	2009	2008
Medicaid	55%	36%
Commercial insurance and other	16	28
Self-pay	14	15
Medicare	15	21
	100%	100%

10) **Management’s Plan to Address Operating Losses**

Stagnant patient revenues and increased operating costs due to labor shortages have resulted in significant losses the past few years, as well as negative working capital and a deficit unrestricted net asset balance. Management has contracted with a firm to assist in developing a new comprehensive business plan that addresses these issues, as well as a formal long-range strategic plan.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2009 and 2008

10) Management's Plan to Address Operating Losses — continued

The District has expanding business in the Moreno Valley and expects to see a return on investment within a three year period, provided the growth in the valley continues. New marketing strategies have already resulted in new patients for both the Colfax General LTC and the Cimarron Healthcare Clinic. Colfax General has been receiving calls regarding potential clients daily; these potential clients usually take several months before admission occurs. Cimarron Healthcare Clinic has averaged five new patients per week for several weeks.

The District has initiated several interventions to reduce costs over the next year by reducing agency use as the solution to labor pool shortages. These include shifting to 12 hour shifts, using flex time to cover the front office area, and assuring salaries are competitive. These steps are already showing results as there has been a reduction in overhead costs by almost 30%. The majority of this reduction has been in agency use which has dropped from \$10,000 per month to \$5,000 and have ceased all spending that is not necessary to operations. Also, with regard to staffing issues, the District has initiated census management in all departments and is requiring all employees with leave to use at least eight hours of vacation during each pay period. These have reduced the total full time equivalents by six over the past four months without having to use layoffs.

Supplementary Information (Audited)

South Central Colfax County Hospital District
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenues				
Net patient service revenue	\$ 1,972,536	\$ 1,972,536	\$ 1,675,528	\$ (297,008)
Operating Expenses				
Salaries, wages and employee benefits	2,372,621	2,372,621	1,997,590	375,031
Purchased services and other	642,358	642,358	876,491	(234,133)
Supplies	417,690	417,690	337,052	80,638
Insurance	72,417	72,417	67,855	4,562
Depreciation	110,000	110,000	105,553	4,447
Total operating expenses	3,615,086	3,615,086	3,384,541	230,545
Operating loss	(1,642,550)	(1,642,550)	(1,709,013)	(66,463)
Nonoperating Revenues				
Ad valorem taxes	1,563,286	1,563,286	1,565,831	2,545
Grants and other	80,200	80,200	82,219	2,019
Total nonoperating revenues	1,643,486	1,643,486	1,648,050	4,564
Change in net assets	\$ 936	\$ 936	(60,963)	\$ (61,899)
Net assets, beginning of year			1,117,250	
Net assets, end of year			\$ 1,056,287	

South Central Colfax County Hospital District
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenues				
Net patient service revenue	\$ 1,772,897	\$ 1,772,897	\$ 1,750,084	\$ (22,813)
Operating Expenses				
Salaries, wages and employee benefits	2,127,154	2,187,155	2,098,257	88,898
Purchased services and other	592,762	589,710	837,851	(248,141)
Supplies	303,178	303,178	376,087	(72,909)
Insurance	72,417	72,417	69,831	2,586
Depreciation	103,713	103,713	84,805	18,908
Total operating expenses	3,199,224	3,256,173	3,466,831	(210,658)
Operating loss	(1,426,327)	(1,483,276)	(1,716,747)	(233,471)
Nonoperating Revenues				
Ad valorem taxes	1,348,310	1,408,310	1,432,078	23,768
Grants and other	78,800	78,800	79,618	818
Total nonoperating revenues	1,427,110	1,487,110	1,511,696	24,586
Change in net assets	\$ 783	\$ 3,834	(205,051)	\$ (208,885)
Net assets, beginning of year			1,322,301	
Net assets, end of year			\$ 1,117,250	

South Central Colfax County Hospital District
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund
For the Years Ended June 30,

	2009	2008
Additions		
Receipts from patients	<u>\$ 123,536</u>	<u>\$ 113,559</u>
Deductions		
Payments made on behalf of patients	<u>126,811</u>	<u>104,525</u>
Change in fiduciary assets and liabilities	(3,275)	9,034
Fiduciary assets and liabilities - beginning of year	<u>14,957</u>	<u>5,923</u>
Fiduciary assets and liabilities - end of year	<u><u>\$ 11,682</u></u>	<u><u>\$ 14,957</u></u>

New Mexico State Auditor's Supplementary Information

South Central Colfax County Hospital District
Schedule of Individual Deposit Accounts and Pledged Collateral
June 30, 2009

Checking Account	Bank of America		Wells Fargo		International Bank	
	Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
Moreno Valley Clinic Operating Account	\$ 1,341	\$ 2,796	\$ -	\$ -	\$ -	\$ -
Refund Account	-	-	2,962	2,462	-	-
Cimarron Clinic Operating Account	-	-	-	-	868	893
Colfax Operating Account	-	-	9,653	12,040	-	-
	<u>1,341</u>	<u>\$ 2,796</u>	12,615	<u>\$ 14,502</u>	868	<u>\$ 893</u>
Less FDIC Coverage	<u>(1,341)</u>		<u>(12,615)</u>		<u>(868)</u>	
Total uninsured public funds	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>	

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 and the Management of
South Central Colfax County Hospital District
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County Hospital District (the “District”), as of and for the year ended June 30, 2009, which collectively comprise the District’s basic financial statements. We have also audited the budget comparison and changes in agency fund assets and liabilities schedules presented as supplementary information for the year ended June 30, 2009, and have issued our report thereon dated September 21, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District’s ability to initiate, authorize, record,

process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected. We consider item FS 09-1 described in the accompanying schedule of findings and responses to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct material effect on the determination of basic 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 certain matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as items SA 09-1 through SA 09-6.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, the New Mexico Legislature and the New Mexico State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

REDWLLC

September 21, 2009

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2009

FS 09-1 — Accounts Payable Reconciliation and Management Review

Criteria or Specific Requirement: The accounts payable general ledger should be reconciled to the manual accrued account to determine all invoices relating to goods or services received during the period have been posted.

Condition: Accounts payable was overstated by \$52,000.

Cause: Management did not detect the misstatement in accounts payable.

Effect: An audit adjustment had to be recorded to correct the misstatement, resulting in a \$52,000 decrease in the fiscal year 2009 net loss (change in net assets).

Auditors' Recommendations: Strengthen the accounts payable cut-off procedures and review process so that accurate amounts are reported in the interim and year-end financial statements.

Management's Response: Management agrees that the process needs to be reviewed and strengthened to detect inaccuracies in accounts payable. Accounts payable will be thoroughly reviewed and reconciled on a monthly basis going forward.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

The following findings are reported in accordance with the New Mexico State Audit Rule 2 NMAC 2.2., *Requirements for Contracting and Conducting Audits of Agencies*.

SA 09-1 — Petty Cash Reconciliation

Criteria or Specific Requirement: Petty cash funds should be reconciled on a regular basis.

Condition: The Springer facility's petty cash fund was over in the amount of \$512.81 and the gas fund was short in the amount of \$62.74.

Cause: Business Office personnel are not reconciling these cash funds on a regular basis.

Effect: The petty cash fund and gas funds do not reconcile to the \$500 base amounts.

Auditors' Recommendations: Petty cash funds and other cash funds should be reconciled on a regular basis to ensure that cash on-hand, plus receipts, plus outstanding check requests reconcile to the base fund amount.

Management's Response: Both accounts were reset to the base amounts of \$500.00 effective August 20, 2009. Business office staff now reconciles each account on a weekly basis and must balance to the correct amount. All receipts are approved by the administrator. Each account must be reconciled to the original \$500.00 each week. The Business Office Supervisor is responsible for assuring this is completed.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

SA 09-2 — Travel Expense Documentation

Criteria or Specific Requirement: To help prevent error or fraud, supporting documentation should be maintained for all disbursements.

Condition: We noted one instance where a disbursement for travel expenses was made, however supporting documentation could not be located.

Cause: Disbursements posted to the general ledger are not always supported by adequate supporting documentation.

Effect: By not maintaining support for all disbursements, the District could fail to detect misstated or fraudulent disbursements.

Auditors' Recommendations: Develop a process to ensure that support for disbursements is properly filed and maintained in accordance with record retention policies.

Management's Response: Management requires all disbursements to be supported with adequate documentation. In the instance noted above, proper documentation was submitted to support the original reimbursement request and the disbursement was properly approved; however, at the time of the audit, the disbursement support could not be located. This appears to be an isolated instance. Management will continue to work to ensure all disbursements are properly supported and that all documentation is maintained.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

SA 09-3 — Personnel Action Form Signatures

Criteria or Specific Requirement: All changes made to employee pay rates should be properly approved, and approval documentation should be maintained in the personnel file to support the current pay rate.

Condition: During our review of the support for 25 payroll disbursements, we found eight instances in which the current pay rate was not properly approved. In all eight instances, the personnel action form did not contain the required second signature from the Administrator or other appropriate member of management.

Cause: The personnel action forms were not properly reviewed to ensure all required signatures were obtained.

Effect: Personnel could be paid an inappropriate pay rate if the approval process is not fully complied with and if proper reviews do not occur.

Auditors' Recommendations: Human Resource management should review all personnel action forms to ensure that proper approvals were obtained before pay rate changes are initiated in the system. These approved forms should be maintained in the employee's personnel file.

Management's Response: Management is sure that all proper approvals were obtained before pay rate changes were initiated in the system. Management also agrees that Human Resources needs to be sure to always have the final forms containing all signatures in the employee's personnel file. Management will work with Human Resources to ensure that the forms inside the personnel files are reviewed and updated as needed.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

SA 09-4 — Patient Billing

Criteria or Specific Requirement: A Long Term Care Abstract Letter from Medicaid should be on file for all Medicaid residents at the Springer facility. This letter acts as an authorization to bill, and receive reimbursement, for services rendered.

Condition: During our review of five patient billings to Medicaid, we found one instance in which a Long Term Care Abstract Letter from Medicaid was not on file for the time period under review.

Cause: Business Office personnel never received this authorization letter from Medicaid. A “Report of Services Performed” was in the resident’s file as a substitute for the letter; however, this report does not replace a formal authorization letter from Medicaid.

Effect: This may lead to loss of revenue, as Medicaid may deny payment for services that it would have otherwise paid for.

Auditors’ Recommendations: Business Office personnel should ensure that a Long Term Care Abstract Letter is on file for all Medicaid residents. Medicaid offices should be contacted to get a copy of the authorization letter. This letter must be on file to show proper authorization in the event that payment of services is denied by Medicaid.

Management’s Response: A review of all resident billing accounts has been completed and abstracts are on file or have been requested for all residents. The Business Office Supervisor will assure that is completed on a monthly basis to assure eligibility for all residents. The missing abstract was due to the change in the Medicaid program to COLTS and related filing requirements.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

SA 09-5 — Segregation of Duties—Cash Receipts

Criteria or Specific Requirement: A good system of internal control requires that adequate segregation of duties be maintained between the receipt of cash and the ability to adjust patient accounts in the system.

Condition: At the Angel Fire Clinic, the Business Office Manager and one of the administrative support staff are able to both receive payments and post adjustments to patient accounts.

Cause: These two employees have access to receive all mail and customer payments, enter the receipts into the system, which posts to patient accounts, adjust patient accounts receivable and deposit cash receipts.

Effect: The ability of the employees to receive cash and checks and post to patient accounts exposes the Clinic to potential theft and misappropriation of patient cash receipts. The employees could potentially steal cash and checks, then cover it up by making fraudulent adjustments to patient accounts.

Auditors' Recommendations: The duties of opening the mail, receiving payments directly from patients, and depositing payments should be performed solely by one employee, and the other individual should be solely responsible for posting the information to the patient account and adjusting patient accounts receivable. The individual posting to patient accounts should not handle cash and checks, but rather post to the system using check copies, explanations of benefits and other remittance information.

Management's Response: The duties for opening the mail have since been assigned to one individual at the clinic. This accounts clerk receives the mail and prepares the list of checks for deposit. The list is then provided to the office manager for posting to the individual accounts using the list and the EOBs. Cash receipts are collected by the receptionist and listed for posting. This listing is provided to the office manager for posting to the individual patient accounts. The cash is then verified and added to the daily deposit by the accounts clerk.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2009

SA 09-6 — Due Date of Audit Report

Criteria or Specific Requirement: According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by October 15 following the fiscal year-end.

Condition: The June 30, 2009 audit report was completed and filed with the State Auditor's Office by October 15, 2009. However, the State Auditor's Office did not accept the report because the signed management representation letter was not submitted by October 15th.

Cause: The District was not able to obtain all necessary signatures on the management representation letter by October 15th.

Effect: The audit report was considered to be late by the State Auditor's Office.

Auditors' Recommendations: In future audits, start circulating the management representation letter earlier so all signatures can be obtained in time to meet the October 15th deadline.

Management's Response: The Administrator was out of town when the process was initiated and unable to sign the letter in time for the close of business on October 15, 2009. In the future, management will assure that signatures are completed no later than October 1st.

South Central Colfax County Hospital District
Current Status Schedule of 2008 Audit Findings
For the Year Ended June 30, 2009

Prior-Year Number	Description	Current Status
FS 08-1	Accounts Payable Reconciliation and Management Review	Unresolved, refer to current audit finding FS 09-1.
SA 08-1	Budget Compliance	Resolved.
SA 08-2	Segregation of Duties—Cash Receipts	Unresolved, refer to current audit finding SA 09-5.
SA 08-3	General Disbursements Controls	Unresolved, refer to current audit finding SA 09-2.

South Central Colfax County Hospital District
Other Disclosures
For the Year Ended June 30, 2009

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 18, 2009, with the following attending:

South Central Colfax County Hospital District
Bill Norris, District Administrator

Presbyterian Healthcare Services
Freddy Gordon, Accountant III

REDW_{LLC}
Chris Tyhurst, Principal
Halie Garcia, Senior Accountant

A presentation was made to a closed session of the board of trustees on September 21, 2009, with the following attending:

South Central Colfax County Hospital District
Marian Vigil, Chairperson
Steve Briggs, Vice Chairperson
William Conley, Secretary/Treasurer
Frederick Martinez, Trustee
Wayne Baker, Trustee
Bill Norris, District Administrator

REDW_{LLC}
Chris Tyhurst, Principal

Financial Statement Preparation

The District's independent public accountants prepared the accompanying basic financial statements; however, the District is responsible for the basic financial statement and disclosure content.