



**South Central Colfax County
Hospital District**

2010 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, 2010

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, 2010 and 2009, 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, 2010 and 2009. 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, 2010 and 2009, 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, 2010 and 2009, 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 20, 2010, 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 20, 2010

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, 2010

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, 2010. 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>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 462,208	\$ 368,628	\$ 493,201
Noncurrent assets	<u>1,155,233</u>	<u>1,206,759</u>	<u>1,223,879</u>
Total assets	<u>\$ 1,617,441</u>	<u>\$ 1,575,387</u>	<u>\$ 1,717,080</u>
Current liabilities	<u>\$ 473,838</u>	<u>\$ 519,100</u>	<u>\$ 599,830</u>
Net assets			
Invested in capital assets	1,155,233	1,206,759	1,223,879
Unrestricted	<u>(11,630)</u>	<u>(150,472)</u>	<u>(106,629)</u>
Total net assets	<u>1,143,603</u>	<u>1,056,287</u>	<u>1,117,250</u>
Total liabilities and net assets	<u>\$ 1,617,441</u>	<u>\$ 1,575,387</u>	<u>\$ 1,717,080</u>

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

The District's total assets increased by approximately \$42,000 in 2010 compared to 2009. This increase in total assets is due primarily to the following:

- Cash and cash equivalents increased by approximately \$400 due to a combination of more patient service revenue offset by more cash paid to suppliers, and more cash paid to employees. In addition, cash from ad valorem taxes and grants increased in 2010.
- Grants receivable decreased by approximately \$3,600 due to the timing of the payment received from the Department of Finance and Administration.
- Ad valorem taxes receivable decreased by approximately \$18,000 due to timing of mill levy receipts from the County Treasurer's office.
- Capital assets decreased \$52,000 due to depreciation in excess of capital additions.

The above changes were offset as follows:

- Net patient accounts receivable increased by approximately \$76,000 due primarily to a delay in Medicaid payments (Evercare and Amerigroup).

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 liabilities decreased approximately \$45,000 in 2010 compared to 2009, due primarily to the timing of payments to the management company.

The District's total liabilities increased approximately \$81,000 in 2009 compared to 2008, 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, 2010

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total operating revenue	\$ 2,093,169	\$ 1,675,528	\$ 1,750,084
Total operating expenses	<u>3,731,353</u>	<u>3,384,541</u>	<u>3,466,831</u>
Operating loss	(1,638,184)	(1,709,013)	(1,716,747)
Nonoperating revenue	<u>1,725,500</u>	<u>1,648,050</u>	<u>1,511,696</u>
Change in net assets	87,316	(60,963)	(205,051)
Beginning net assets	<u>1,056,287</u>	<u>1,117,250</u>	<u>1,322,301</u>
Total net assets, year-end	<u>\$ 1,143,603</u>	<u>\$ 1,056,287</u>	<u>\$ 1,117,250</u>

Operating revenues increased by approximately \$418,000 in 2010 compared to 2009 primarily due to an increase in census at the long-term care facility and an increase in negotiated billing rates.

Nonoperating revenues increased by approximately \$77,500 in 2010 compared to 2009 primarily due to an increase in mill levy revenues of approximately \$77,000, which was the result of taxes levied on oil and gas drilling.

Operating expenses increased by approximately \$347,000 in 2010 compared to 2009 as a result of the following:

- Salaries, wages and employee benefits increased by approximately \$285,000 due to increasing the number of full-time employees in order to meet expected demand for services.
- Supplies increased by approximately \$29,000 primarily due to an increase in the usage of supplies resulting from higher census numbers in 2010.

The above changes were partially offset as follows:

- Purchased services and other expense increased by approximately \$8,000 primarily due to the increased use of agency nurses in 2010.
- Depreciation expense increased by approximately \$25,000 due to the new clinic in Moreno Valley.

As the District completed the year, total net assets increased by approximately \$87,000 from \$1,056,000 at June 30, 2009 to \$1,143,000 at June 30, 2010.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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 \$1,117,000 at June 30, 2008 to \$1,056,000 at June 30, 2009.

Highlights of Performance vs. Fiscal Year 2010 Budget

- Total net patient service revenue was under budget by approximately \$70,200 due to lower patient census than anticipated.
- Salaries, wages and benefits was under budget by approximately \$101,500 due primarily to the expected hiring of an accountant to gap the transition from Presbyterian Healthcare Services managing the District to another management company. However, the contract was extended with Presbyterian Healthcare Services, so this position was not filled.
- Purchased services and other expenses were under budget by approximately \$15,700 due to fewer agency nurses in 2010.
- Supply costs were under budget by approximately \$4,000 primarily due to less than expected medical and food supplies usage.
- Ad valorem taxes (mill levy) income was over budget by approximately \$52,800 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, 2010

Capital Assets

At the end of fiscal year 2010, the District had approximately \$1,155,000, 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 \$52,000 from the prior year, due to current year depreciation in excess of capital asset additions. For fiscal year 2009, the decrease of \$17,000 from 2008 was also due to depreciation in excess of capital asset additions. See the notes to the 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 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.
- Insurance costs are projected to remain consistent with 2009 rates.
- Management expects an increase in total net assets from 2010 to 2011, 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,

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 19,344	\$ 18,886
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$136,000 in 2010 and \$102,000 in 2009	302,663	227,109
Ad valorem taxes and other receivables	61,622	43,814
Grants receivable	9,447	13,043
Supplies inventory and other current assets	69,132	65,776
Total current assets	462,208	368,628
Capital assets, net	1,155,233	1,206,759
Total assets	\$ 1,617,441	\$ 1,575,387
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 64,648	\$ 122,346
Due to management company	137,628	189,420
Accrued compensated absences	113,922	110,463
Accrued payroll	114,665	69,410
Other accrued liabilities	42,975	27,461
Total current liabilities	473,838	519,100
Net assets		
Invested in capital assets	1,155,233	1,206,759
Unrestricted	(11,630)	(150,472)
Total net assets	1,143,603	1,056,287
Total liabilities and net assets	\$ 1,617,441	\$ 1,575,387

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,

	2010	2009
Operating Revenue		
Net patient service revenue	<u>\$ 2,093,169</u>	<u>\$ 1,675,528</u>
Operating Expenses		
Salaries, wages and employee benefits	2,282,162	1,997,590
Purchased services and other	884,669	876,491
Supplies	366,515	337,052
Insurance	67,198	67,855
Depreciation	<u>130,809</u>	<u>105,553</u>
Total operating expenses	<u>3,731,353</u>	<u>3,384,541</u>
Operating loss	<u>(1,638,184)</u>	<u>(1,709,013)</u>
Nonoperating Revenue		
Ad valorem taxes	1,642,800	1,565,831
Grants and other	<u>82,700</u>	<u>82,219</u>
Total nonoperating revenue	<u>1,725,500</u>	<u>1,648,050</u>
Change in net assets	87,316	(60,963)
Net assets, beginning of year	<u>1,056,287</u>	<u>1,117,250</u>
Net assets, end of year	<u><u>\$ 1,143,603</u></u>	<u><u>\$ 1,056,287</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,

	2010	2009
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 2,017,615	\$ 1,585,741
Cash paid to employees	(2,217,934)	(2,004,041)
Cash paid to suppliers	<u>(1,431,228)</u>	<u>(1,354,251)</u>
Net cash used by operating activities	<u>(1,631,547)</u>	<u>(1,772,551)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	1,624,992	1,755,120
Grants and other	<u>86,296</u>	<u>104,258</u>
Net cash provided by noncapital financing activities	<u>1,711,288</u>	<u>1,859,378</u>
Cash flows from capital and related financing activities		
Capital asset purchases	<u>(79,283)</u>	<u>(88,433)</u>
Net increase (decrease) in cash and cash equivalents	458	(1,606)
Cash and cash equivalents, beginning of year	<u>18,886</u>	<u>20,492</u>
Cash and cash equivalents, end of year	<u>\$ 19,344</u>	<u>\$ 18,886</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,638,184)	\$ (1,709,013)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	130,809	105,553
Changes in assets and liabilities		
Patient accounts receivable	(75,554)	(89,787)
Supplies inventory and other current assets	(3,356)	1,426
Accounts payable	(57,698)	25,473
Due to management company	(51,792)	(157,238)
Accrued payroll	45,255	57,486
Accrued compensated absences	3,459	(10,111)
Other accrued liabilities	<u>15,514</u>	<u>3,660</u>
Net cash used by operating activities	<u>\$ (1,631,547)</u>	<u>\$ (1,772,551)</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
June 30,

	<u>2010</u>	<u>2009</u>
Assets		
Current assets		
Cash	<u>\$ 11,458</u>	<u>\$ 11,682</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 11,458</u>	<u>\$ 11,682</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, 2010 and 2009

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 primarily 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 both 2010 and 2009, 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 \$137,628 and \$189,420 at June 30, 2010 and 2009, 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. 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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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.

Accounts Receivable Allowances

Accounts receivable consist primarily of amounts due from Medicaid, 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

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

not be collected. In evaluating the collectability 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.

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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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 2010 and 2009.

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, 2010 and 2009.

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, 2010, total operating expenses were within budget.

Reclassifications

Certain reclassifications have been made to the 2009 financial statement amounts to conform to the 2010 presentation. The reclassifications had no effect on net assets.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

Subsequent Events

Subsequent events through October 7, 2010, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2010, financial statements.

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 \$250,000. 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, 2010 and 2009.

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:

	2010	2009
Carrying amount of deposits	\$ 18,612	\$ 18,191
Cash on hand	732	695
Unrestricted cash and cash equivalents	\$ 19,344	\$ 18,886

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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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

	2010	2009
Gross charges		
Inpatient	\$ 1,687,012	\$ 1,280,881
Outpatient	<u>677,379</u>	<u>904,676</u>
	2,364,391	2,185,557
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	272,408	489,877
Change in provision for uncollectible accounts	(8,554)	14,583
Un-sponsored charges, including governmental indigent care programs	<u>7,368</u>	<u>5,569</u>
Net patient service revenue	<u>\$ 2,093,169</u>	<u>\$ 1,675,528</u>

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, 2010 and 2009

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Ending Balance
<i>Capital assets not being depreciated</i>			
Land	\$ 41,937	\$ -	\$ 41,937
Construction in progress	-	5,555	5,555
Total capital assets not being depreciated	<u>41,937</u>	<u>5,555</u>	<u>47,492</u>
<i>Capital assets being depreciated</i>			
Land improvements	168,854	2,693	171,547
Building and improvements	1,526,038	-	1,526,038
Equipment	855,594	71,035	926,629
Total capital assets being depreciated	<u>2,550,486</u>	<u>73,728</u>	<u>2,624,214</u>
<i>Less accumulated depreciation for</i>			
Land improvements	33,573	8,030	41,603
Building and improvements	665,155	78,720	743,875
Equipment	686,936	44,059	730,995
Total accumulated depreciation	<u>1,385,664</u>	<u>130,809</u>	<u>1,516,473</u>
<i>Total capital assets being depreciated, net</i>	<u>1,164,822</u>	<u>(57,081)</u>	<u>1,107,741</u>
Capital assets, net	<u>\$ 1,206,759</u>	<u>\$ (51,526)</u>	<u>\$ 1,155,233</u>

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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>

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2010, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 110,463</u>	<u>\$ 113,922</u>	<u>\$ 110,463</u>	<u>\$ 113,922</u>	<u>\$ 113,922</u>

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>\$ 110,463</u>	<u>\$ 133,825</u>	<u>\$ 110,463</u>	<u>\$ 110,463</u>

The 2009 balances were restated to reclassify amounts that were not related to accrued compensated absences to the appropriate liability account. This reclassification had no impact on the June 30, 2009 total assets, liabilities, net assets or change in net assets.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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.

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. 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 in compliance with 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. 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 both 2010 and 2009 for malpractice coverage. Current coverage through PHS is expected to cover the full amount of any malpractice liability claims.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2010 and 2009

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 \$61,000 in 2010 and \$70,000 in 2009 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.

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:

	<u>2009</u>	<u>2008</u>
Medicaid	60%	55%
Medicare	16	15
Commercial insurance and other	16	16
Self-pay	8	14
	<u>100%</u>	<u>100%</u>

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue				
Net patient service revenue	\$ 2,163,368	\$ 2,163,368	\$ 2,093,169	\$ (70,199)
Operating Expenses				
Salaries, wages and employee benefits	2,383,662	2,383,662	2,282,162	101,500
Purchased services and other	900,406	900,406	884,669	15,737
Supplies	370,532	370,532	366,515	4,017
Insurance	68,000	68,000	67,198	802
Depreciation	109,500	109,500	130,809	(21,309)
Total operating expenses	3,832,100	3,832,100	3,731,353	100,747
Operating loss	(1,668,732)	(1,668,732)	(1,638,184)	30,548
Nonoperating Revenue				
Ad valorem taxes	1,590,000	1,590,000	1,642,800	52,800
Grants and other	79,700	79,700	82,700	3,000
Total nonoperating revenue	1,669,700	1,669,700	1,725,500	55,800
Change in net assets	\$ 968	\$ 968	87,316	\$ 86,348
Net assets, beginning of year			1,056,287	
Net assets, end of year			\$ 1,143,603	

Note to Schedule

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. The legal level of budgetary control is at the fund level.

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 Revenue				
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 Revenue				
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 revenue	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	

Note to Schedule

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. The legal level of budgetary control is at the fund level.

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

	2010	2009
Additions		
Receipts from patients	<u>\$ 134,810</u>	<u>\$ 123,536</u>
Deductions		
Payments made on behalf of patients	<u>135,034</u>	<u>126,811</u>
Change in fiduciary assets and liabilities	(224)	(3,275)
Fiduciary assets and liabilities - beginning of year	<u>11,682</u>	<u>14,957</u>
Fiduciary assets and liabilities - end of year	<u><u>\$ 11,458</u></u>	<u><u>\$ 11,682</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, 2010

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	\$ 4,013	\$ 4,780	\$ -	\$ -	\$ -	\$ -
Refund Account	-	-	3,038	2,425	-	-
Cimarron Clinic Operating Account	-	-	-	-	616	683
Colfax Operating Account	-	-	10,724	10,724	-	-
	<u>4,013</u>	<u>\$ 4,780</u>	13,762	<u>\$ 13,149</u>	616	<u>\$ 683</u>
Less FDIC Coverage	<u>(4,013)</u>		<u>(13,762)</u>		<u>(616)</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, 2010, 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, 2010, and have issued our report thereon dated September 20, 2010. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. 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 10-1 and SA 10-2.

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 20, 2010

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2010

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 10-1 — Petty Cash and Patient Trust Account Reconciliations

Criteria or Specific Requirement: Petty cash funds and patient trust account funds should be reconciled on a regular basis. This will help reduce the risk of error or fraud.

Condition: Based upon review of the August 2, 2010 petty cash log, we noted that the petty cash fund was overstated by \$44.59. We also noted that the patient trust account had not been reconciled since April 2010.

Cause: The petty cash fund and patient trust account funds are not reconciled on a regular basis.

Effect: The petty cash fund did not reconcile to the \$1,000 base amount, and the patient trust account balance did not reconcile to the bank balance.

Auditors' Recommendations: Petty cash funds and patient trust account funds should be reconciled on a regular basis to ensure accuracy of funds.

Management's Response: Management agrees with this finding and has established new policies and procedures. Petty cash will be balanced by the Business Office Clerk on a daily basis. The petty cash will be balanced to the \$1,000 amount, and failure to balance will not be allowed. This will be reviewed weekly by the Business Office Manager and will be checked on a routine basis by the Administrator.

Patient Trust accounts are balanced every month with the bank statement. However, our new software system has failed to apply the interest amounts to each account as specified. The Administrator and the Business Office Manager are meeting with the software technical services to get this corrected. All manual accounts are correct and in balance, it is only the computer listings that are in error. We expect to have this corrected within 60 days.

South Central Colfax County Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2010

SA 10-2 — 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 opening mail, receiving payment, and depositing payments should not have access to the billing/accounts receivable system. 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: This is a small clinic with three part time employees and each needs the access to both payments and to patient files. We do divide the duties when we have two staff present by one handling all the money and the other handling the patient input to the computer/billing system. Since they are part time, we have two different people on different days completing each task.

As there is very little cash being processed and checks are clearly stamped prior to deposit, the chance of malfeasance is small. We have now established an oversight process that provides the office manager with a listing of all patient adjustments within the billing system, and these adjustments listings are then sent to the Administrator on a weekly basis. These are reviewed and any out of the ordinary adjustments must be clarified.

South Central Colfax County Hospital District
Current Status Schedule of 2009 Audit Findings
For the Year Ended June 30, 2010

Prior-Year Number	Description	Current Status
FS 09-1	Accounts Payable Reconciliation and Management Review	Resolved.
SA 09-1	Petty Cash Reconciliation	Unresolved, refer to current audit finding SA 10-1.
SA 09-2	Travel Expense Documentation	Resolved.
SA 09-3	Personnel Action Form Signatures	Resolved.
SA 09-4	Patient Billing	Resolved.
SA 09-5	Segregation of Duties—Cash Receipts	Unresolved, refer to current audit finding SA 10-2.
SA 09-6	Due Date of Audit Report	Resolved.

South Central Colfax County Hospital District
Other Disclosures
For the Year Ended June 30, 2010

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 20, 2010, with the following attending:

South Central Colfax County Hospital District
Bill Norris, District Administrator

Presbyterian Healthcare Services
Freddy Gordon, Accountant III
Jim Hood, Director of Finance

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

A presentation was made to a closed session of the board of trustees on September 27, 2010, with the following attending:

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

REDW_{LLC}
Angie Olvera, Manager

Financial Statement Preparation

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