

**South Central Colfax County
Hospital District**

2011 and 2010 Financial Statements,
Supplementary Information and
Independent Auditors' Reports



CPAs | Business & Financial Advisors

South Central Colfax County Hospital District

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South Central Colfax County Hospital District
June 30, 2011

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 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, 2011 and 2010, 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, 2011 and 2010. 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, 2011 and 2010, 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 to actual comparison and the changes in agency fund assets and liabilities of the District for the years ended June 30, 2011 and 2010, 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 October 3, 2011, 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 to actual 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

October 3, 2011

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, 2011

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, 2011. 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>2011</u>	2010	<u>2009</u>
Current assets	\$ 1,285,915	\$ 462,208	\$ 368,628
Noncurrent assets	<u>1,028,927</u>	<u>1,155,233</u>	<u>1,206,759</u>
Total assets	<u>\$ 2,314,842</u>	<u>\$ 1,617,441</u>	<u>\$ 1,575,387</u>
Current liabilities	<u>\$ 988,076</u>	<u>\$ 473,838</u>	<u>\$ 519,100</u>
Net assets			
Invested in capital assets	1,028,927	1,155,233	1,206,759
Unrestricted	<u>297,839</u>	<u>(11,630)</u>	<u>(150,472)</u>
Total net assets	<u>1,326,766</u>	<u>1,143,603</u>	<u>1,056,287</u>
Total liabilities and net assets	<u>\$ 2,314,842</u>	<u>\$ 1,617,441</u>	<u>\$ 1,575,387</u>

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The District's total assets increased by approximately \$697,000 in 2011 compared to 2010. This increase in total assets is due primarily to the following:

- Cash and cash equivalents increased by approximately \$379,000 due to a combination of more patient service revenue, an increase in ad valorem taxes, and an increase in the payable due to the management company. The ad valorem taxes increased due to a payment received from the county from a new solar company in the county.
- Net patient accounts receivable increased by approximately \$44,000 due primarily to a delay in Medicaid payments (Evercare and Amerigroup) partly caused by the transfer of management companies.
- Ad valorem taxes receivable increased by approximately \$314,000 due to timing of mill levy receipts from the County Treasurer's office.
- Due from former management company increased by \$44,000 due to payments made to the former management company on behalf of the District.
- Prepaids increased by approximately \$29,000 due to the District prepaying insurance costs now.

The above changes were offset as follows:

- Capital assets decreased \$126,000 due to depreciation in excess of capital additions.

The District's total assets increased by approximately \$42,000 in 2010 compared to 2009. This decrease 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 2011.
- 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 liabilities increased approximately \$514,000 in 2011 compared to 2010, due primarily 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, 2011

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

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

	<u>2011</u>	2010	2009
Total operating revenue	\$ 2,003,507	\$ 2,093,169	\$ 1,675,528
Total operating expenses	<u>3,731,000</u>	<u>3,731,353</u>	<u>3,384,541</u>
Operating loss	(1,727,493)	(1,638,184)	(1,709,013)
Nonoperating revenue	<u>1,910,656</u>	<u>1,725,500</u>	<u>1,648,050</u>
Change in net assets	183,163	87,316	(60,963)
Beginning net assets	<u>1,143,603</u>	<u>1,056,287</u>	<u>1,117,250</u>
Total net assets, year-end	<u>\$ 1,326,766</u>	<u>\$ 1,143,603</u>	<u>\$ 1,056,287</u>

Operating revenues decreased by approximately \$90,000 in 2011 compared to 2010 primarily due to increases in contractual and bad debt allowances.

Nonoperating revenues increased by approximately \$185,000 in 2011 compared to 2010 primarily due to an increase in ad valorem taxes of approximately \$200,000, which resulted from a new solar company starting in the county.

Operating expenses in 2011 were comparable to 2010.

As the District completed the year, total net assets increased by approximately \$183,000 from \$1,144,000 at June 30, 2010 to \$1,327,000 at June 30, 2011.

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.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 \$1,057,000 at June 30, 2009 to \$1,144,000 at June 30, 2010.

Highlights of 2011 Performance vs. Fiscal Year Budget

- Total net patient service revenue was under budget by approximately \$108,000 due to lower than anticipated laboratory reimbursements.
- Purchased services and other expenses were under budget by approximately \$157,000 due to fewer agency nurses in 2011.
- Supply costs were over budget by approximately \$31,000 primarily due to higher prices with the current management company.
- Ad valorem taxes (mill levy) income was over budget by approximately \$98,000 due to a payment received from the county from a new solar company in the county.
- Grants and other revenue was over budget by approximately \$127,000 due to the District not expecting the same amount of grants and due to the District's former management company forgiving some insurance costs.

South Central Colfax County Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Capital Assets

At the end of fiscal year 2011, the District had approximately \$1,029,000 net of accumulated depreciation, invested in capital assets, including land and land improvements, construction in progress, buildings and building improvements, and equipment. The amount represents a net decrease of approximately \$126,000 from the prior year, due to current year depreciation in excess of capital asset additions. For fiscal year 2010, the decrease of \$52,000 from 2009 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 2012's Budget and Rates

Key factors affecting 2012'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 \$69,000 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 2011 rates.
- Management expects an increase in total net assets from 2011 to 2012, 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,

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 398,610	\$ 19,344
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$458,000 in 2011 and \$136,000 in 2010	346,825	302,663
Ad valorem taxes receivable	375,754	61,622
Due from former management company	44,000	-
Grants receivable	17,400	9,447
Prepaid expenses	32,258	3,125
Supplies inventory	71,068	66,007
Total current assets	1,285,915	462,208
Capital assets, net	1,028,927	1,155,233
Total assets	\$ 2,314,842	\$ 1,617,441
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 25,618	\$ 64,648
Due to management company	787,780	137,628
Accrued compensated absences	41,135	113,922
Accrued payroll	100,717	114,665
Other accrued liabilities	32,826	42,975
Total current liabilities	988,076	473,838
Net assets		
Invested in capital assets	1,028,927	1,155,233
Unrestricted	297,839	(11,630)
Total net assets	1,326,766	1,143,603
Total liabilities and net assets	\$ 2,314,842	\$ 1,617,441

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,

	2011	2010
Operating Revenue		
Net patient service revenue	<u>\$ 2,003,507</u>	<u>\$ 2,093,169</u>
Operating Expenses		
Salaries, wages and employee benefits	2,297,132	2,282,162
Purchased services and other	816,682	884,669
Supplies	391,699	366,515
Depreciation	162,399	130,809
Insurance	<u>63,088</u>	<u>67,198</u>
Total operating expenses	<u>3,731,000</u>	<u>3,731,353</u>
Operating loss	<u>(1,727,493)</u>	<u>(1,638,184)</u>
Nonoperating Revenue		
Ad valorem taxes	1,748,164	1,642,800
Grants and other	<u>162,492</u>	<u>82,700</u>
Total nonoperating revenue	<u>1,910,656</u>	<u>1,725,500</u>
Change in net assets	183,163	87,316
Net assets, beginning of year	<u>1,143,603</u>	<u>1,056,287</u>
Net assets, end of year	<u><u>\$ 1,326,766</u></u>	<u><u>\$ 1,143,603</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>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 1,915,345	\$ 2,017,615
Cash paid to employees	(2,394,016)	(2,217,934)
Cash paid to suppliers	<u>(607,091)</u>	<u>(1,431,228)</u>
Net cash used by operating activities	<u>(1,085,762)</u>	<u>(1,631,547)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	1,434,032	1,624,992
Grants and other	<u>67,089</u>	<u>86,296</u>
Net cash provided by noncapital financing activities	<u>1,501,121</u>	<u>1,711,288</u>
Cash flows from capital and related financing activities		
Capital asset purchases	<u>(36,093)</u>	<u>(79,283)</u>
Net increase in cash and cash equivalents	379,266	458
Cash and cash equivalents, beginning of year	<u>19,344</u>	<u>18,886</u>
Cash and cash equivalents, end of year	<u>\$ 398,610</u>	<u>\$ 19,344</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,727,493)	\$ (1,638,184)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	162,399	130,809
Changes in assets and liabilities		
Patient accounts receivable	(44,162)	(75,554)
Supplies inventory and other current assets	(78,194)	(3,356)
Accounts payable	(39,030)	(57,698)
Due to management company	737,602	(51,792)
Accrued payroll	(13,948)	45,255
Accrued compensated absences	(72,787)	3,459
Other accrued liabilities	<u>(10,149)</u>	<u>15,514</u>
Net cash used by operating activities	<u>\$ (1,085,762)</u>	<u>\$ (1,631,547)</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>2011</u>	<u>2010</u>
Assets		
Current assets		
Cash	<u>\$ 16,832</u>	<u>\$ 11,458</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 16,832</u>	<u>\$ 11,458</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, 2011 and 2010

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 had a management and contract services agreement through which Presbyterian Healthcare Services (PHS) provided certain management services to the District. The Agreement terminated on December 31, 2010. PHS provided the following centralized services: procurement, human resource management, pharmacy, data processing, and legal counsel.

As of January 1, 2011, the District entered into a management and contract services agreement with Taos Professional Services (TPS). TPS provides certain management services to the District. Amounts due to PHS and TPS 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 \$88,000 and \$90,000 in 2011 and 2010, respectively, 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 \$787,780 and \$137,628 at June 30, 2011 and 2010, 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.

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, 2011 and 2010

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. As permitted by GASB, the District has elected to apply all relevant Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that do not conflict with or contradict 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, 2011 and 2010

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 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 \$5,000 or more 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 the 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

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 2011 and 2010.

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, 2011 and 2010.

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

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2011 and 2010

that alter the total expenditures must be communicated to DFA. For the year ended June 30, 2011, total operating expenses were within budget.

Subsequent Events

Subsequent events through October 6, 2011, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2011, 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. As of June 30, 2011, the District had deposits with a bank balance of \$414,946, including \$16,975 of patient trust funds in the District’s agency fund. Of this total bank balance, \$15,662 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2010, all of the District’s deposits were insured by the FDIC.

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

	2011	2010
Carrying amount of deposits	\$ 398,610	\$ 18,612
Cash on hand	-	732
Unrestricted cash and cash equivalents	\$ 398,610	\$ 19,344

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, 2011 and 2010

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

	2011	2010
Gross charges		
Inpatient	\$ 1,693,697	\$ 1,687,012
Outpatient	<u>703,351</u>	<u>677,379</u>
	2,397,048	2,364,391
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	388,738	272,408
Change in provision for uncollectible accounts	4,803	(8,554)
Un-sponsored charges, including governmental indigent care programs	<u>-</u>	<u>7,368</u>
Net patient service revenue	<u>\$ 2,003,507</u>	<u>\$ 2,093,169</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, 2011 and 2010

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2011, 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	22,584	28,139
Total capital assets not being depreciated	<u>47,492</u>	<u>22,584</u>	<u>70,076</u>
<i>Capital assets being depreciated</i>			
Land improvements	171,547	-	171,547
Building and improvements	1,526,038	-	1,526,038
Equipment	926,629	13,509	940,138
Total capital assets being depreciated	<u>2,624,214</u>	<u>13,509</u>	<u>2,637,723</u>
<i>Less accumulated depreciation for</i>			
Land improvements	41,603	5,743	47,346
Building and improvements	743,875	77,459	821,334
Equipment	730,995	79,197	810,192
Total accumulated depreciation	<u>1,516,473</u>	<u>162,399</u>	<u>1,678,872</u>
<i>Total capital assets being depreciated, net</i>	<u>1,107,741</u>	<u>(148,890)</u>	<u>958,851</u>
Capital assets, net	<u>\$ 1,155,233</u>	<u>\$ (126,306)</u>	<u>\$ 1,028,927</u>

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, 2011 and 2010

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2011, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 113,922</u>	<u>\$ 41,135</u>	<u>\$ 113,922</u>	<u>\$ 41,135</u>	<u>\$ 41,135</u>

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>

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

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 had commercial insurance policies for directors' and officers' liability through PHS self-insurance programs through December 31, 2010, and through Chartis, Inc. as of January 1, 2011 and thereafter.

The District was covered under PHS's general liability policy for malpractice and under PHS's self-funded workers' compensation through December 31, 2010. PHS was self-funded for hospital liability and general liability up to \$3 million. Claims exceeding those limits were covered by a \$40 million excess coverage policy. PHS was self-funded for workers' compensation up to certain limits.

As of January 1, 2011, the District was covered under Chartis, Inc.'s Not-for-Profit risk Protector general liability policy for malpractice and workers' compensation. The policy provides coverage for hospital liability and general liability up to \$3 million and up to certain limits for workers' compensation.

Current coverage is expected to cover the full amount of any malpractice liability claims and workers' compensation claims. Accordingly, no accrual has been recorded for any such claims in the accompanying basic financial statements. Payments to PHS and Chartis, Inc. for malpractice and workers' compensation coverage during the period ending June 30, 2011 and 2010 approximated \$64,000 and \$123,000, respectively. Settled claims have not exceeded insurance coverage in any of the three preceding years.

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.

South Central Colfax County Hospital District
Notes to Basic Financial Statements
June 30, 2011 and 2010

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:

	2011	2010
Medicaid	67%	60%
Medicare	16	16
Commercial insurance and other	9	16
Self-pay	8	8
	100%	100%

10) Retirement Plan

The District was part of a 403(b) Plan that was administered by PHS. As of December 31, 2010, PHS terminated the plan. A new 403(b) plan was established as a defined contribution retirement plan effective January 1, 2011, administered by Holy Cross Hospital Services. All employees are eligible to participate in the plan after a one year probationary period. The plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 403(b) of the Internal Revenue Code.

Employer contributions to the plan are discretionary and are fully vested once the employee is eligible to participate in the 403(b) plan. Employee and employer contributions to the plan for the year ended June 30, 2011, were \$46,926 and \$63,571, respectively. Employee and employer contributions to the plan for the year ended June 30, 2010, were \$59,516 and \$104,962, respectively.

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Operating Revenue				
Net patient service revenue	\$ 2,334,921	\$ 2,111,259	\$ 2,003,507	\$ (107,752)
Operating Expenses				
Salaries, wages and employee benefits	2,257,607	2,298,602	2,297,132	1,470
Purchased services and other	883,630	973,509	816,682	156,827
Supplies	343,716	360,295	391,699	(31,404)
Depreciation	124,357	130,000	162,399	(32,399)
Insurance	66,602	69,270	63,088	6,182
Total operating expenses	3,675,912	3,831,676	3,731,000	100,676
Operating loss	(1,340,991)	(1,720,417)	(1,727,493)	(7,076)
Nonoperating Revenue				
Ad valorem taxes	1,658,605	1,650,000	1,748,164	98,164
Grants and other	41,351	35,700	162,492	126,792
Total nonoperating revenue	1,699,956	1,685,700	1,910,656	224,956
Change in net assets	\$ 358,965	\$ (34,717)	183,163	\$ 232,032
Net assets, beginning of year			1,143,603	
Net assets, end of year			\$ 1,326,766	

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, 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
Depreciation	109,500	109,500	130,809	(21,309)
Insurance	68,000	68,000	67,198	802
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 Changes in Fiduciary Assets and Liabilities – Agency Fund
For the Years Ended June 30,

	2011	2010
Additions		
Receipts from patients	<u>\$ 128,435</u>	<u>\$ 134,810</u>
Deductions		
Payments made on behalf of patients	<u>123,061</u>	<u>135,034</u>
Change in fiduciary assets and liabilities	5,374	(224)
Fiduciary assets and liabilities - beginning of year	<u>11,458</u>	<u>11,682</u>
Fiduciary assets and liabilities - end of year	<u><u>\$ 16,832</u></u>	<u><u>\$ 11,458</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, 2011

Note: Excludes agency fund deposits

Account Name	Account Type	Wells Fargo		International Bank	
		Bank Balance	Book Balance	Bank Balance	Book Balance
Moreno Valley Clinic Operating Account	Checking	\$ -	\$ -	\$ 27,297	\$ 27,821
Cimarron Clinic Operating Account	Checking	-	-	5,730	5,845
Refund Account	Checking	304	304	-	-
Donation Receipts Account	Checking	200,078	200,078	-	-
Colfax Operating Account	Checking	164,562	164,562	-	-
Total amount of deposits in bank		364,944	<u>\$ 364,944</u>	33,027	<u>\$ 33,666</u>
Less FDIC insurance		(250,000)		(33,027)	
Total uninsured public funds		<u>\$ 114,944</u>		<u>\$ -</u>	

Collateral requirement - 50% (Section 6-10-17) \$ 57,472

Pledged securities held by Wells Fargo, held in the name of the District

Description	Maturity	CUSIP	
FG G04816 5.000%	9/1/2038	2138M6VH8	\$ 19,905
FG H00812 5.500%	5/1/2037	3128MS3V0	12,584
FG H008895 5.500%	6/1/2037	3128MS7G8	11,826
FN 190391 6.000%	9/1/2038	31368HNG4	8,209
FN 255934 6.000%	11/1/2035	31371MHK6	3,480
FN 258800 6.000%	7/1/2037	31371INGH2	2,190
FN AH8825 4.500%	3/1/2041	3138AAYX3	10,328
FN 831472 6.000%	5/1/2036	31407HW93	1,539
FN 834821 6.000%	12/1/2035	31407MPE9	6,394
FN 880882 6.000%	4/1/2036	31409WUF6	10,394
FN 889579 6.000%	5/1/2038	31410KJY1	15,476
FN 948858 6.000%	8/1/2037	31413LTP4	7,316
FN 995018 5.500%	6/1/2038	314168K72	6,616
Total pledged collateral			<u>116,257</u>
Amount over collateralized for 50% requirement			<u>\$ 58,785</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, 2011, 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, 2011, and have issued our report thereon dated October 3, 2011. 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. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider items FS 11-1 and FS 11-2 in the accompanying schedule of findings and responses to be material weaknesses.

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 11-1 through SA 11-4.

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

October 3, 2011

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

Section I — Financial Statement Findings

FS 11-1 — Bank Accounts — Material Weakness

Criteria or Specific Requirement: To prevent error, fraud, and misstatements, all bank accounts should be reconciled on a monthly basis and all accounts should be included in the trial balance.

Condition: Monthly bank reconciliations for January 2011 through June 2011 were not performed until August 2011, and one bank account had not been recorded in the District's trial balance.

Cause: Due to the transfer of management companies during fiscal year 2011, the bank accounts for January 2011 through June 2011 were not reconciled until August 2011 and a bank account had not been recorded in the trial balance.

Effect: By not performing monthly bank account reconciliations in a timely basis and not ensuring all accounts are included in the trial balance, the District could fail to detect errors, misappropriation of assets, or misstatement in the financial statements.

Auditors' Recommendations: Bank accounts should be reconciled monthly and in a timely manner. Additionally, a process should be developed to ensure all accounts are recorded in the District's trial balance.

Management's Response: All bank accounts are now being reconciled on a monthly basis. The District administrator and TPS personnel will maintain a dialogue to ensure any new accounts are identified and entered in the trial balance.

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

Section I — Financial Statement Findings — continued

FS 11-2 — Patient Accounts Receivable and Allowances — Material Weakness

Criteria or Specific Requirement: Patient accounts receivable should be monitored regularly, and contractual allowances and allowances for doubtful patient accounts receivable should be estimated based upon on a supported methodology.

Condition: The District did not follow its documented methodology for estimating patient accounts receivable allowances. In addition, patient accounts receivable was overstated by approximately \$200,000 because of payments received by the former management company that had not been appropriately reflected in the District's trial balance.

Cause: Due to the transfer of management companies during fiscal year 2011, the payments received by the former management company were overlooked, and the patient accounts receivable allowances were not calculated based on the District's documented methodology.

Effect: Net patient accounts receivable was overstated, and audit adjustments were required.

Auditors' Recommendations: The District should monitor its patient accounts receivable aging and related payments closely, and follow its existing policy for calculating allowances.

Management's Response: Management will follow its supported methodology and adjust the allowance accordingly.

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

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 11-1 — Capital Assets — Other

Criteria or Specific Requirement: A periodic physical inventory of capital assets is necessary to determine whether capital assets are impaired and help detect the loss or unauthorized use of property and equipment. New Mexico State Statute Section 12-6-10, NMSA 1978, requires all organizations to conduct an annual physical inventory of equipment. Additionally, a periodic review and recalculation of the capital asset listing and its related depreciation helps ensure accuracy of capital accounts and their related depreciation.

Condition: The District placed some fully depreciated assets in storage or removed them from the facility as they no longer worked, but were still included in the capital asset listing. In addition, a used car that was donated to the District in 2005 was not included in the capital asset listing. Furthermore, there were some assets past their useful lives that had not been fully depreciated.

Cause: The District does not have a process or policy in place to take a physical inventory of its capital assets, or to assess capital assets for impairment.

Effect: Although the items noted were either fully depreciated or not material to the financial statements taken as a whole, without a periodic physical inventory of its capital assets, the District may be exposed to the risk of loss or unauthorized use of property and equipment, and may fail to identify capital assets whose use has been impaired. Additionally, failure to perform a periodic review and recalculation of the capital asset listing and related depreciation could lead to inaccurate capital asset and accumulated depreciation balances.

Auditors' Recommendations: Periodic physical counts of movable capital assets should be performed and compared to the detailed capital asset subsidiary ledger. Affixing identifying tags with numbers as assigned in the subsidiary ledger will aid in making this comparison. Capital assets whose use has been impaired should be identified at this time, and appropriate adjustments made to carrying values in the general ledger. Additionally, the District should perform a periodic recalculation of the capital asset listing and related depreciation.

Management's Response: All assets are inventoried on an annual basis. At this time, the capital asset inventory will be reviewed with the depreciation schedule to verify that all items are being recorded properly. The current list of capital assets has been updated and the depreciation schedule adjusted accordingly.

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

SA 11-2 — Journal Entries — Other

Criteria or Specific Requirement: To help prevent error or fraud, all journal entries should be reviewed by someone other than the preparer, and supporting documentation should be maintained for all journal entries.

Condition: We noted that no one reviews the journal entries that the Controller records into Quickbooks at the District's management company. We also noted one instance where the support for a journal entry recorded by the District's former management company could not be located.

Cause: Journal entries recorded into Quickbooks are not approved by someone other than the preparer, and journal entries are not always supported by adequate supporting documentation.

Effect: By not approving all journal entries and not maintaining support for all journal entries, the District could fail to detect erroneous or fraudulent entries.

Auditors' Recommendations: Develop a process to ensure that journal entries are approved by someone other than the preparer, and ensure that support for all journal entries is properly filed and maintained.

Management's Response: Journal entries are now being completed by one person and reviewed and approved by management. Management will continue to work to ensure all journal entries are properly supported and that all documentation is maintained.

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

SA 11-3 — Accounts Payable — Other

Criteria or Specific Requirement: Accounts payable should be reconciled to the general ledger on a monthly basis to ensure completeness and accuracy and help detect errors and fraud.

Condition: The management company's software does not separate the payables by fund code; therefore, the accounts payable detail for the District had to be manually created.

Cause: The system does not allow separating payables by fund.

Effect: Creating a manual accounts payable listing is inefficient and increases the risk of errors and fraud.

Auditors' Recommendations: Develop a process whereby the manual accounts payable detail is reconciled to the trial balance on a monthly basis. This will help ensure completeness and accuracy.

Management's Response: Accounts payable will be reconciled to the trial balance on a quarterly basis.

South Central Colfax County Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2011

SA 11-4 — Patient Billing — Other

Criteria or Specific Requirement: All receipts over the billed amount should be refunded to the patient, and all supporting documentation disputing disallowed charges should be maintained.

Condition: We noted one instance where the District received a payment from a patient for the patient's portion of the total amount due, and then subsequently received full payment from the insurance company, including the patient's portion. We also noted two patients' charges were disallowed, but there was no supporting documentation that the District attempted to dispute or refile them.

Cause: The District did not catch the overpayment of charges and did not maintain supporting documentation for the two disputes.

Effect: Not refunding overpayments could lead to unresolved credit balances in the system and understatement of patient accounts receivable, and not maintaining documentation supporting disputes may lead to loss of revenue.

Auditors' Recommendations: Develop a process to ensure all overpayments are refunded, and maintain documentation for all denied/disputed claims.

Management's Response: The business office manager will review all credit balances with the Administrator on a monthly basis. Requests for refunds are reviewed and approved by the Administrator. All credit balances due to patients will be refunded on a timely basis.

South Central Colfax County Hospital District
Current Status Schedule of 2010 Audit Findings
For the Year Ended June 30, 2011

Prior-Year Number	Description	Current Status
SA 10-1	Petty Cash and Patient Trust Account Reconciliations	Resolved
SA 10-2	Segregation of Duties—Cash Receipts	Resolved

South Central Colfax County Hospital District
Other Disclosures
For the Year Ended June 30, 2011

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 22, 2011, with the following attending:

South Central Colfax County Hospital District
Bill Norris, District Administrator

Taos Professional Services
Scott Clark, Accounting Manager

REDW_{LLC}
Angie Olvera, Manager
Keith Hall, Senior Accountant

A presentation was made to a closed session of the board of trustees on September 26, 2011, with the following attending:

South Central Colfax County Hospital District
Marian Vigil, Chairperson
Steve Briggs, Vice Chairperson
Wayne Baker, Board Member
Fred Martinez, Board Member
Mike Jensen, Human Resources
Hortensia Martinez, Human Resources
William Conley, Secretary/Treasurer
Bill Norris, District Administrator
Sandra Salazar, Secretary

Taos Professional Services
Ric Eisenring, Chief Financial Officer
Scott Clark, Accounting Manager

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.