
South Central Colfax County Special Hospital District

*Financial Statements,
Supplementary Information, and
Independent Auditors' Reports
June 30, 2012 and 2011*



CPAs | Business & Financial Advisors

South Central Colfax County Special Hospital District

Table of Contents

	<u>Page</u>
Board of Trustees and Principal Employee	1
Independent Auditors' Report	2-3
Required Supplementary Information	
Management's Discussion and Analysis	4-8
Basic Financial Statements	
Statements of Net Assets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Statements of Fiduciary Assets and Liabilities – Agency Fund	12
Notes to Basic Financial Statements	13-22
Supplementary Information (Audited)	
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual	23-24
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	25
New Mexico State Auditor's Supplementary Information	
Schedule of Individual Deposit Accounts and Pledged Collateral	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	27-28
Schedule of Findings and Responses	29-37
Current Status Schedule of 2011 Audit Findings	38
Other Disclosures	39

South Central Colfax County Special Hospital District
June 30, 2012

Board of Trustees

Marian Vigil
Steve Briggs
William Conley
Nate Lay
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 Special 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 Special Hospital District (the "District"), as of and for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011, 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, 2012 and 2011, 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 25, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 that collectively comprise the District's financial statements as a whole. 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

REDWLLC

Albuquerque, New Mexico
September 25, 2012

Required Supplementary Information
Management's Discussion and Analysis

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2012

This section of the financial report presents management's discussion and analysis of South Central Colfax County Special Hospital District's (the "District") financial performance during the fiscal year that ended June 30, 2012. 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>2012</u>	2011	2010
Current assets	\$ 698,672	\$ 1,285,915	\$ 462,208
Noncurrent assets	<u>975,645</u>	<u>1,028,927</u>	<u>1,155,233</u>
Total assets	<u>\$ 1,674,317</u>	<u>\$ 2,314,842</u>	<u>\$ 1,617,441</u>
Current liabilities	<u>\$ 903,776</u>	<u>\$ 988,076</u>	<u>\$ 473,838</u>
Net assets			
Invested in capital assets	975,645	1,028,927	1,155,233
Unrestricted	<u>(205,104)</u>	<u>297,839</u>	<u>(11,630)</u>
Total net assets	<u>770,541</u>	<u>1,326,766</u>	<u>1,143,603</u>
Total liabilities and net assets	<u>\$ 1,674,317</u>	<u>\$ 2,314,842</u>	<u>\$ 1,617,441</u>

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The District's total assets decreased by approximately \$641,000 in 2012 compared to 2011. This decrease in total assets is due primarily to the following:

- Cash and cash equivalents decreased by approximately \$77,000 due to a combination of less net patient service revenue, a decrease in ad valorem taxes, and an increase in purchased services and other expenses. Purchased services and other expenses increased due to staffing nurses utilized through a local agency.
- Net patient accounts receivable decreased by approximately \$109,000 primarily due to resumed billing and collection on Medicaid payments (Evercare and Amerigroup) subsequent to the transition of management companies. Increased collection efforts resulted in a \$430,000 decrease in the allowance for estimated uncollectible accounts.
- Ad valorem taxes receivable decreased by approximately \$356,000 due to the timing of mill levy receipts from the County Treasurer's office.
- Due from former management company decreased by \$44,000 due to a settlement payment received by the District.
- Prepays decreased by approximately \$12,000 due to the District prepaying less insurance costs.
- Capital assets decreased approximately \$53,000 due to depreciation in excess of capital additions.

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.
- Prepaid expenses increased by approximately \$29,000 due to the District prepaying more insurance costs.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The above changes were offset as follows:

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

The District's total liabilities decreased approximately \$84,000 in 2012 compared to 2011, primarily due to the timing of payments made to the management company and a decrease in the year-end accrued payroll expenses.

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.

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS

	2012	2011	2010
Total operating revenue	\$ 1,939,413	\$ 2,003,507	\$ 2,093,169
Total operating expenses	4,189,277	3,731,000	3,731,353
Operating loss	(2,249,864)	(1,727,493)	(1,638,184)
Nonoperating revenue	1,693,639	1,910,656	1,725,500
Change in net assets	(556,225)	183,163	87,316
Beginning net assets	1,326,766	1,143,603	1,056,287
Total net assets, year-end	\$ 770,541	\$ 1,326,766	\$ 1,143,603

2012

Net operating revenues decreased by approximately \$64,000 in 2012 compared to 2011 primarily due to a decrease in patient service charges. Patient service charges decreased as a result of decreased patient census days and decreased patient visits.

Nonoperating revenues decreased by approximately \$217,000 in 2012 compared to 2011 primarily due to a decrease in ad valorem taxes of approximately \$141,000, which resulted from a decrease in assessed property taxes by the County. Additionally, grant and other income decreased by approximately \$76,000 due to a decrease in grant funding and interest earned.

Operating expenses increased by approximately \$458,000 in 2012 compared to 2011 primarily due to an increase in purchased services and other expenses resulting from higher than anticipated medical agency staffing costs.

As the District completed the year, total net assets decreased by approximately \$556,000 from \$1,327,000 at June 30, 2011 to \$771,000 at June 30, 2012.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2012

2011

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.

Highlights of 2012 Performance vs. Fiscal Year Budget

- Total net patient service revenue was under budget by approximately \$239,000 due to lower than anticipated patient census days.
- Salaries, wages, and employee benefits expense were under budget by approximately \$140,000 due to unanticipated nursing staff turnover.
- Purchased services and other expenses were over budget by approximately \$407,000 due to higher than anticipated use of agency nurses.
- Ad valorem taxes (mill levy) income was under budget by approximately \$100,000 due to a decrease in assessed property taxes by the County.

Capital Assets

At the end of fiscal year 2012, the District had approximately \$976,000 net of accumulated depreciation, invested in capital assets, including land and land improvements, buildings and building improvements, and equipment. The amount represents a net decrease of approximately \$53,000 from the prior year, due to current year depreciation in excess of capital asset additions. For fiscal year 2011, the decrease of \$126,000 from 2010 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 2013's Budget and Rates

Key factors affecting 2013'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 \$70,000 for the two clinics.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Year Ended June 30, 2012

- The Springer facility received an increase in their approved Medicaid Low Nursing Facility (LNF) care rate. The rate increased from \$149 to \$155 which should result in increased patient service revenue.
- The lab budget is set based on the prior year's actual revenues and expenses as levels are expected to remain consistent in fiscal year 2013.
- Both clinics, Moreno Valley and Cimarron, are projected to remain consistent with very little growth.
- Insurance costs are projected to decrease in 2013.
- Management expects an increase in total net assets from 2012 to 2013, 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 Special Hospital District
P.O. Box 458
Springer, New Mexico 87747
(575) 483-2443

Basic Financial Statements

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

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 321,608	\$ 398,610
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$29,000 in 2012 and \$458,000 in 2011	237,611	346,825
Ad valorem taxes receivable	19,322	375,754
Due from former management company	-	44,000
Grants receivable	12,971	17,400
Prepaid expenses	19,914	32,258
Supplies inventory	87,246	71,068
Total current assets	698,672	1,285,915
Capital assets, net	975,645	1,028,927
Total assets	\$ 1,674,317	\$ 2,314,842
 Liabilities and Net Assets		
Current liabilities		
Due to management company	\$ 697,024	\$ 787,780
Accounts payable	26,881	25,618
Accrued payroll	54,231	100,717
Accrued compensated absences	82,638	41,135
Other accrued liabilities	43,002	32,826
Total current liabilities	903,776	988,076
Net assets		
Invested in capital assets	975,645	1,028,927
Unrestricted	(205,104)	297,839
Total net assets	770,541	1,326,766
Total liabilities and net assets	\$ 1,674,317	\$ 2,314,842

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

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

	2012	2011
Operating Revenue		
Net patient service revenue	<u>\$ 1,939,413</u>	<u>\$ 2,003,507</u>
Operating Expenses		
Salaries, wages and employee benefits	2,272,801	2,297,132
Purchased services and other	1,390,528	816,682
Supplies	370,597	391,699
Depreciation	100,938	162,399
Insurance	<u>54,413</u>	<u>63,088</u>
Total operating expenses	<u>4,189,277</u>	<u>3,731,000</u>
Operating loss	<u>(2,249,864)</u>	<u>(1,727,493)</u>
Nonoperating Revenue		
Ad valorem taxes	1,606,770	1,748,164
Grants and other	<u>86,869</u>	<u>162,492</u>
Total nonoperating revenue	<u>1,693,639</u>	<u>1,910,656</u>
Change in net assets	(556,225)	183,163
Net assets, beginning of year	<u>1,326,766</u>	<u>1,143,603</u>
Net assets, end of year	<u><u>\$ 770,541</u></u>	<u><u>\$ 1,326,766</u></u>

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

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

	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 2,060,971	\$ 1,915,345
Cash paid to employees	(2,267,608)	(2,394,016)
Cash paid to suppliers	<u>(1,504,599)</u>	<u>(607,091)</u>
Net cash used by operating activities	<u>(1,711,236)</u>	<u>(1,085,762)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	1,590,592	1,434,032
Grants and other	<u>91,298</u>	<u>67,089</u>
Net cash provided by noncapital financing activities	<u>1,681,890</u>	<u>1,501,121</u>
Cash flows from capital and related financing activities		
Capital asset purchases	(49,361)	(36,093)
Other capital and related financing activities	<u>1,705</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(47,656)</u>	<u>(36,093)</u>
Net change in cash and cash equivalents	(77,002)	379,266
Cash and cash equivalents, beginning of year	<u>398,610</u>	<u>19,344</u>
Cash and cash equivalents, end of year	<u>\$ 321,608</u>	<u>\$ 398,610</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (2,249,864)	\$ (1,727,493)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	100,938	162,399
Change in allowance for estimated uncollectible accounts	(429,383)	(366,380)
Changes in assets and liabilities		
Patient accounts receivable, gross	538,597	322,218
Supplies inventory and other current assets	412,776	(78,194)
Accounts payable	1,263	(39,030)
Due to management company	(90,756)	737,602
Accrued payroll	(46,486)	(13,948)
Accrued compensated absences	41,503	(72,787)
Other accrued liabilities	<u>10,176</u>	<u>(10,149)</u>
Net cash used by operating activities	<u>\$ (1,711,236)</u>	<u>\$ (1,085,762)</u>

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

South Central Colfax County Special Hospital District
Statements of Fiduciary Assets and Liabilities – Agency Fund
June 30,

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash	<u>\$ 18,827</u>	<u>\$ 16,832</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 18,827</u>	<u>\$ 16,832</u>

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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

1) Organization and Operations

South Central Colfax County Special Hospital District (the “District”) operates a long-term care facility in Springer, New Mexico and primary care clinics in Angel Fire and Cimarron, New Mexico. The District was created under 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 with Taos Professional Services (TPS) to provide certain management services to the District, effective January 1, 2011. Amounts due to 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 \$129,000 and \$88,000 in 2012 and 2011, 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 \$697,024 and \$787,780 at June 30, 2012 and 2011, 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 TPS.

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. 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.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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 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.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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 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.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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 2012 and 2011.

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, 2012 and 2011.

Budgets and Budgetary Accounting

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

Expenditures cannot exceed the total budget. Any budget amendments are approved by the Board and sent to DFA for their approval. The Board is authorized to transfer budgeted amounts between departments within a fund; however, any revisions that alter the total expenditures must be communicated to DFA. For the year ended June 30, 2012, total operating expenses exceeded budgeted operating expenses.

Subsequent Events

Subsequent events through September 25, 2012, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2012, 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. Effective December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest bearing transaction accounts are fully insured

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

regardless of the amount in the account, according to the Dodd-Frank Wall Street Reform and Consumer Protection Act. As of June 30, 2012, the District had deposits with a bank balance of \$412,968, including \$18,827 of patient trust funds in the District's agency fund. Of this total bank balance, there were no amounts subject to custodial credit risk as all amounts were either insured or collateralized. As of June 30, 2011, all of the District's deposits were insured by the FDIC. The carrying amount of the District's deposits as of June 30, 2012 and 2011, was \$321,608 and \$398,610, respectively.

4) Net Patient Service Revenue

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

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

	<u>2012</u>	<u>2011</u>
Gross charges		
Inpatient	\$ 1,649,415	\$ 1,693,697
Outpatient	<u>681,624</u>	<u>703,351</u>
	2,331,039	2,397,048
Less contractual adjustments and provision for uncollectible accounts	<u>391,626</u>	<u>393,541</u>
Net patient service revenue	<u>\$ 1,939,413</u>	<u>\$ 2,003,507</u>

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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.

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 41,937	\$ -	\$ -	\$ -	\$ 41,937
Construction in progress	28,139	-	(1,705)	(26,434)	-
Total capital assets not being depreciated	<u>70,076</u>	<u>-</u>	<u>(1,705)</u>	<u>(26,434)</u>	<u>41,937</u>
<i>Capital assets being depreciated</i>					
Land improvements	171,547	-	-	-	171,547
Building and improvements	1,526,038	-	-	26,434	1,552,472
Equipment	940,138	49,361	-	-	989,499
Total capital assets being depreciated	<u>2,637,723</u>	<u>49,361</u>	<u>-</u>	<u>26,434</u>	<u>2,713,518</u>
<i>Less accumulated depreciation for</i>					
Land improvements	47,346	8,438	-	-	55,784
Building and improvements	821,334	42,608	-	-	863,942
Equipment	810,192	49,892	-	-	860,084
Total accumulated depreciation	<u>1,678,872</u>	<u>100,938</u>	<u>-</u>	<u>-</u>	<u>1,779,810</u>
Total capital assets being depreciated, net	<u>958,851</u>	<u>(51,577)</u>	<u>-</u>	<u>26,434</u>	<u>933,708</u>
Capital assets, net	<u>\$ 1,028,927</u>	<u>\$ (51,577)</u>	<u>\$ (1,705)</u>	<u>\$ -</u>	<u>\$ 975,645</u>

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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>

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2012, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 41,135	\$ 186,202	\$ 144,699	\$ 82,638	\$ 82,638

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
\$ 113,922	\$ 41,135	\$ 113,922	\$ 41,135	\$ 41,135

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

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.

Risk Management— The District had commercial insurance policies for directors' and officers' liability through Chartis, Inc. as of January 1, 2011, and continues with this coverage through August 2013.

The District is currently covered with 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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

such claims in the accompanying basic financial statements. Payments to Chartis, Inc. for malpractice and workers' compensation coverage during the period ending June 30, 2012 and 2011, approximated \$54,000 and \$63,000, 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 31, 2015, 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 its operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

	<u>2012</u>	<u>2011</u>
Medicaid	48%	67%
Self-pay	26	8
Commercial insurance and other	15	9
Medicare	11	16
	<u>100%</u>	<u>100%</u>

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2012 and 2011

10) Retirement Plan

The District is part of a 403(b) plan 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, 2012, were \$55,540 and \$10,748, respectively. Employee and employer contributions to the plan for the year ended June 30, 2011, were \$46,926 and \$63,571, respectively.

11) Future Operations

The District has experienced operating losses in recent years. Management is confident that the District will continue as a going concern through fiscal year 2013 and beyond because of the following:

- The District received a significant increase in its approved LNF rate. The increase was from \$143 to \$155 per patient day, or an 8% increase, beginning in fiscal year 2013.
- The District anticipates approximately \$400,000 in additional mill levy revenue from the Colfax County Treasurer's office in fiscal year 2013.
- The District has successfully renegotiated employee health insurance rates with Holy Cross Hospital to receive more competitive rates. This decrease in rates is expected to result in a decrease in overall operating expenses.
- The District's nursing staff at its long-term care facility in Springer, NM is at full capacity and management does not anticipate significant agency staffing costs in the future. This should result in significantly lower operating expenses in fiscal year 2013, as the cost of agency staffing is well above typical salary expenses.

Supplementary Information (Audited)

South Central Colfax County Special Hospital District
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue				
Net patient service revenue	\$ 2,178,715	\$ 2,178,715	\$ 1,939,413	\$ (239,302)
Operating Expenses				
Salaries, wages and employee benefits	2,413,102	2,413,102	2,272,801	140,301
Purchased services and other	984,002	984,002	1,390,528	(406,526)
Supplies	371,561	371,561	370,597	964
Depreciation	130,000	130,000	100,938	29,062
Insurance	69,270	69,270	54,413	14,857
Total operating expenses	3,967,935	3,967,935	4,189,277	(221,342)
Operating loss	(1,789,220)	(1,789,220)	(2,249,864)	(460,644)
Nonoperating Revenue				
Ad valorem taxes	1,707,000	1,707,000	1,606,770	(100,230)
Grants and other	83,000	83,000	86,869	3,869
Total nonoperating revenue	1,790,000	1,790,000	1,693,639	(96,361)
Change in net assets	\$ 780	\$ 780	(556,225)	\$ (557,005)
Net assets, beginning of year			1,326,766	
Net assets, end of year			\$ 770,541	

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 Special 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 Final Budget - Favorable (Unfavorable)
	Original	Final		
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	\$ 217,880
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 Special Hospital District
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund
For the Years Ended June 30,

	2012	2011
Additions		
Receipts from patients	<u>\$ 142,067</u>	<u>\$ 128,435</u>
Deductions		
Payments made on behalf of patients	<u>140,072</u>	<u>123,061</u>
Change in fiduciary assets and liabilities	1,995	5,374
Fiduciary assets and liabilities - beginning of year	<u>16,832</u>	<u>11,458</u>
Fiduciary assets and liabilities - end of year	<u><u>\$ 18,827</u></u>	<u><u>\$ 16,832</u></u>

New Mexico State Auditor's Supplementary Information

South Central Colfax County Special Hospital District
Schedule of Individual Deposit Accounts and Pledged Collateral
June 30, 2012

Note: Excludes agency fund deposits

Account Name	Account Type	Wells Fargo		International Bank		U.S. Bank	
		Bank	Book	Bank	Book	Bank	Book
		Balance	Balance	Balance	Balance	Balance	Balance
Moreno Valley Clinic Operating Account	Checking	\$ -	\$ -	\$ 66,881	\$ 67,654	\$ -	\$ -
Cimarron Clinic Operating Account	Checking	-	-	5,676	5,676	-	-
SCCCHD Operating Account	Checking	-	-	-	-	260,315	186,206
Long Term Care Operating Account	Checking	61,269	61,443	-	-	-	-
Bank Lockbox	Lockbox	-	629	-	-	-	-
Total amount of deposits in bank		61,269	<u>\$ 62,072</u>	72,557	<u>\$ 73,330</u>	260,315	<u>\$ 186,206</u>
Less FDIC insurance		(61,269)		(72,557)		(260,315)	
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 Special 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 Special Hospital District (the “District”), as of and for the year ended June 30, 2012, 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, 2012, and have issued our report thereon dated September 25, 2012. 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 through FS 11-3 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 11-3, SA 12-1 and SA 12-2.

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

Albuquerque, New Mexico
September 25, 2012

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

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 were not consistently performed for a lockbox bank account that was opened in November 2011, and this bank account had not been recorded in the District's trial balance.

Cause: Given that this was a new lockbox bank account that was opened to assist with a billing system transition, the management company overlooked reconciling this bank account on a monthly basis and therefore had not recorded it in the District's trial balance.

Effect: By not performing monthly bank account reconciliations on 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 account balances will be included on the District's trial balance and financial statements. These balances will be reconciled on a monthly basis between the trial balance and the bank statements. These reconciliations will be done by a staff accountant and reviewed by the accounting manager. Both the staff accountant and the accounting manager will sign off on these reconciliations.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

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 the allowances for doubtful patient accounts receivable. In addition, the documented methodology did not consider all aspects, including the analysis of specific payor categories, aging categories, and contractual discounts and allowances, of patient accounts receivable. Finally, the allowance for doubtful patient accounts receivable was overstated by approximately \$80,000 because the estimate was not adequately analyzed at year-end.

Cause: A thorough analysis of the allowance for doubtful patient accounts receivable was not performed at year-end; therefore, an adjustment was never made to the estimate recorded. The District had not assessed the current allowance methodology to determine if it was appropriate, addressed all important aspects of patient accounts receivable and was based on historical data or another appropriate basis.

Effect: Net patient accounts receivable was understated by approximately \$80,000 and an audit adjustment was required.

Auditors' Recommendations: The District should analyze the existing allowance methodology and adjust it to ensure that it results in an appropriate estimate of allowances for doubtful patient accounts receivable. The District's allowance methodology should be based on historical data or another appropriate basis and should consider factors such as the collectability of the different payor categories, the collectability of each aging categories, and the assessment of contractual discounts and allowances. The revised documented methodology should be consistently applied and analyzed on a regular basis to ensure that it is continually representative of the District's activities.

Management's Response: TPS will work with the District to develop an allowance methodology that will include the analysis of payor categories, age of accounts receivable and contractual discounts/allowances. This methodology will be applied to the outstanding patient accounts receivable balances on a monthly basis to determine an accurate estimate of allowances. TPS will also work with the District to develop a look-back analysis to determine the accuracy of the allowance estimate. If adjustments to the methodologies are needed, TPS and the District will work together to make those adjustments.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

Section I — Financial Statement Findings — continued

FS 11-3 — Account Reconciliations — Material Weakness

Criteria or Specific Requirement: All accounts in the District's trial balance should be reconciled on a regular basis and adjustments should be made, as needed, to reflect the District's current financial position.

Condition: There were several accounts that were not reconciled on a regular basis; therefore, the District's original balance at June 30, 2012, was materially incorrect. Specifically, patient accounts receivable and the related allowance for doubtful patient accounts receivable, one bank account, capital assets and the related depreciation expense, accounts payable, accrued liabilities, several expense accounts and the mill levy receivable were not reconciled on a regular basis.

Cause: The management company experienced significant turnover near year-end which resulted in several reconciliations and required adjustments not occurring in a timely manner.

Effect: Several accounts in the District's trial balance were materially misstated at year-end which resulted in additional analysis and audit adjustments.

Auditors' Recommendations: All accounts should be reconciled on a regular basis, and adjustments should be recorded as variances are identified to ensure that internal financial statements throughout the year are accurate and to ensure that errors or fraud are identified and addressed in a timely manner.

Management's Response: TPS has assigned new staff accountants to the District accounting and financial statement preparations. This staff will be required to reconcile all trial balance accounts to the supporting source documents. This reconciliation will be done on a monthly basis. All account variances will be resolved and reconciling items will be posted as close to the month that the activity occurred as possible. The staff accountants and the accounting manager will sign off on the reconciled trial balance on a monthly basis. The controller for TPS will also review the trial balance on a quarterly basis.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

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, to ensure that the capital asset listing accurately reflects the assets in use, and to 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 related depreciation helps ensure the accuracy of capital asset, accumulated depreciation, and depreciation expense accounts.

Condition: There were several fully depreciated assets that were no longer in service at the District, but they were still included in the capital asset listing. In addition, there were assets that were past their useful lives that had not been fully depreciated. Furthermore, a full annual inventory of all capital assets was not performed.

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 on at least an annual basis. 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. Assets that are no longer in use should be identified, properly disposed of, and removed from the capital asset listing. Additionally, the District should perform a periodic recalculation of the capital asset listing and related depreciation.

Management's Response: Management failed to complete the inventory of capital assets in a timely manner. This has been corrected and the capital asset inventory is to be completed by October 31, 2012. This will include updating all information for each asset.

This is a two part inventory. Part one will be all items that have a value between \$250 and \$4,999. These are non-capital items and we must make certain they are not currently included in the depreciation schedule. These will be listed by department, item value, description and serial number and will provide a base line for all items in this category.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2012

SA 11-1 — Capital Assets — Other — continued

This second part will be for all items that have a value of \$5,000 or greater. These are the capital assets and must be included in the depreciation schedule. Upon completion of this inventory, these items will be listed by description, value, purchase date, serial number and the assigned identification tag number provided by the District. This inventory will then be shared with TPS to confirm that all items are on the depreciation schedule appropriately. Items that have exceeded the depreciation will be listed on a separate inventory with the correct tag number.

Upon completion of this inventory, this will be the baseline for future inventories which are to be completed by June 1 of each fiscal year. A process has been instituted to assure that all items are accounted for during each inventory. As new items are purchased, they will be added to the inventory with the tag number prior to being placed in service. TPS will be notified of each purchase. Items that require disposal will have the tag removed and a report on the reason for the disposal will be sent to TPS.

The Purchasing Manager is overseeing the initial inventory and the Administrator is working with all departments to assure compliance.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

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: There was not documentation showing that journal entries posted into QuickBooks by accountants at the District's management company were reviewed and approved, and those entries posted by the management company's Controller were not reviewed and approved. In addition, we identified one instance where the supporting documentation for a journal entry did not agree to the entry recorded in QuickBooks, and there was no documentation to show if the variance was ever resolved.

Cause: Journal entries recorded into QuickBooks were either not approved by someone other than the preparer, or they were reviewed but documentation of that review was not made. In addition, journal entries were 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: All journal entries posted to the accounts of the District will be reviewed by someone other than the preparer. The review will be completed by a staff accountant, accounting manager or the controller. The review will include making sure that all supporting documentation for the postings is accurate. The reviewer will sign off on entries before they are posted.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

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: TPS will be installing a new Accounts Payable module within its system (Meditech) to help facilitate the monthly reconciliation of the accounts payable balance to the general ledger. On a monthly basis the detail listing of open invoices from the new module will be reconciled to the balance in the general ledger and any reconciling items will be addressed in a timely manner. This reconciliation will be reviewed and signed off on by someone other than the preparer.

South Central Colfax County Special Hospital District
Current Status Schedule of 2011 Audit Findings
For the Year Ended June 30, 2012

SA 12-1 — Actual Expenditures Exceeded Budget Expenditures — Other

Criteria or Specific Requirement: According to the State Auditor Rule 2.2.2.10(P)(1)(a), if actual expenditures exceed budgeted expenditures at the legal level of budgetary control, that fact must be reported in a finding.

Condition: The District's total budgeted operating expenditures were exceeded. Budgeted expenditures were \$3,967,935 and actual expenditures were \$4,189,277 resulting in an overage of \$221,342.

Cause: The District incurred excess expenses for the purchase of agency nurse services during the year due to staffing problems at the facilities.

Effect: Actual expenditures exceeded budgeted expenditures during the fiscal year.

Auditors' Recommendations: Establish adequate procedures to monitor budget compliance and prohibit exceeding budgeted amounts. Unfavorable variances should be investigated to ensure that program directors are spending according to the adopted budget, and budget amendments should be pursued in instances where situations change throughout the year.

Management's Response: District management has implemented new controls to assure that we do not face this same situation again. The controls were in place to review the budget and management was fully aware that we were exceeding the budgeted expenses; however, there was no other choice.

This situation was caused by a sudden loss of nursing staff which necessitated the use of agency staff until permanent staff could be hired. The controls were in place to review all aspects of the budget; however, there was no method in place to have a "pool" of nursing staff to help during this crisis situation. We have a minimum staff level that must be maintained and we were only able to provide that level through the use of agency personnel.

With our new Director of Nurses, we have been able to reduce turnover to less than 40% in all areas, and we are developing a pool of staff members that are cross trained to be certified nurse aides. We have also developed training schedules with local schools to have new staff trained quickly. By having depth in staffing we are assured we will not face this issue again.

All budget items are reviewed each month with the Board. We will continue with this due diligence in monitoring any and all variances in the budget. If we ever have a situation such as this, we will apply with the Department of Finance for a budget increase at the time the overage expectations arise so that the budget can be revised and approved.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2012

SA 12-2 — Payroll Supporting Documentation — Other

Criteria or Specific Requirement: All pay rates should be supported by approved source documentation.

Condition: We identified one instance where a pay rate utilized was less than the most recently approved Personnel Action Form.

Cause: The pay rate entered into the payroll system did not match the rate approved on the Personnel Action Form.

Effect: This resulted in the employee being underpaid \$0.13 per hour.

Auditors' Recommendations: The District should implement a formal review process where, on a regular basis, pay rates in the system are compared to the applicable Personnel Action Form. Any variances should be corrected immediately. The District should research this specific instance and determine if back-pay is required for the under-payment.

Management's Response: Given the size of the District's HR department (one employee) it is not possible to have a second person review the data entry of the Personnel Action Forms. The HR department has started to do random audits of personnel files compared to actions forms to ensure accuracy. Also the HR Generalist does a self-review after every Personnel Action Form is entered. The issue found during the audit occurred prior to the hiring of the District's HR Generalist. The hiring of this position will help guard against these errors occurring in the future.

South Central Colfax County Special Hospital District
Current Status Schedule of 2011 Audit Findings
For the Year Ended June 30, 2012

Prior-Year Number	Description	Current Status
FS 11-1	Bank Accounts	Unresolved
FS 11-2	Patient Accounts Receivable and Allowances	Unresolved
SA 11-1	Capital Assets	Unresolved
SA 11-2	Journal Entries	Unresolved
SA 11-3	Accounts Payable	Unresolved
SA 11-4	Patient Billing	Resolved

South Central Colfax County Special Hospital District
Other Disclosures
For the Year Ended June 30, 2012

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 19, 2012, with the following attending:

South Central Colfax County Special Hospital District
Bill Norris, District Administrator

Taos Professional Services
Richard Archuleta, Controller

REDW_{LLC}
Chris Tyhurst, Principal
Halie Garcia, Sr. Manager

A presentation was made to a closed session of the board of trustees on September 24, 2012, with the following attending:

South Central Colfax County Special Hospital District
Marian Vigil, Chairperson
Steve Briggs, Vice Chairperson
William Conley, Secretary/Treasurer
Nathan Lay, Trustee
Fredrick Martinez, Trustee
Bill Norris, District Administrator
Sandra Salazar, Board Support
Mike Jensen, Human Resources

Taos Professional Services
Ric Eisenring, Chief Financial Officer

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.