
**South Central Colfax County
Special Hospital District
Springer, New Mexico**

*Financial Statements,
Supplementary Information, and
Independent Auditors' Reports
June 30, 2013 and 2012*



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 Auditor’s Report	2-4
Required Supplementary Information	
Management’s Discussion and Analysis	5-9
Basic Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Statements of Fiduciary Assets and Liabilities – Agency Fund	13
Notes to Basic Financial Statements	14-24
Supplementary Information (Audited)	
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual	25-26
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	27
New Mexico State Auditor’s Supplementary Information	
Schedule of Individual Deposit Accounts and Pledged Collateral	28
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	29-30
Schedule of Findings and Responses	31-36
Current Status Schedule of 2012 Audit Findings	37
Corrective Action Plan	38
Other Disclosures	39

**South Central Colfax County Special Hospital District
Board of Trustees and Principal Employee
June 30, 2013**

Board of Trustees

Marian Vigil
Steve Briggs
Nate Lay
Frederick Martinez

Chairperson
Vice Chairperson
Trustee
Trustee

Principal Employee

Bill Norris

District Administrator

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County Special Hospital District (the "District"), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents. We have also audited the schedule of revenues, expenses, and changes in net position – budget and actual for the years ended June 30, 2013 and 2012, and the schedule of changes in fiduciary assets and liabilities – agency fund, presented as supplementary information as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and agency fund of the District as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance 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, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements, budget and actual comparison, and the changes in agency fund 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 are presented for purposes of additional analysis and to meet the requirements of the New Mexico Office of the State Auditor, and are not required parts 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

REDW LLC

Albuquerque, New Mexico
October 7, 2013

Required Supplementary Information
Management's Discussion and Analysis

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 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, 2013 and 2012. This presentation is intended to enhance the readers' understanding of the financial statements that follow and should be read in conjunction with those financial statements.

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net 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 position represents the difference between its assets and liabilities and is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. Other 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 POSITION

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 919,515	\$ 698,672	\$ 1,285,915
Noncurrent assets	<u>951,356</u>	<u>975,645</u>	<u>1,028,927</u>
Total assets	<u>\$ 1,870,871</u>	<u>\$ 1,674,317</u>	<u>\$ 2,314,842</u>
Current liabilities	<u>\$ 535,739</u>	<u>\$ 903,776</u>	<u>\$ 988,076</u>
Net position			
Net investment in capital assets	951,356	975,645	1,028,927
Unrestricted	<u>383,776</u>	<u>(205,104)</u>	<u>297,839</u>
Total net position	<u>1,335,132</u>	<u>770,541</u>	<u>1,326,766</u>
Total liabilities and net position	<u>\$ 1,870,871</u>	<u>\$ 1,674,317</u>	<u>\$ 2,314,842</u>

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012

2013

The District's total assets increased by approximately \$197,000 in 2013 compared to 2012. This increase in total assets was due primarily to the following:

- Net patient accounts receivable increased by approximately \$106,000 due primarily to an increase in the billing rate used for Medicaid reimbursements and improved clinic revenue.
- Ad valorem taxes receivable increased by approximately \$337,000 due to an increase in the mill levy rate and timing of mill levy receipts from the County Treasurer's office.
- Prepaid expenses increased by approximately \$31,000 due to the District prepaying more insurance costs.

The above changes were offset as follows:

- Cash and cash equivalents decreased by approximately \$241,000 due to a decrease in the amount due to management company.
- Capital assets decreased \$24,000 due to depreciation in excess of capital additions.

The District's total liabilities decreased approximately \$368,000 in 2013 compared to 2012, due primarily to the timing and amount of payments to the management company.

2012

The District's total assets decreased by approximately \$641,000 in 2012 compared to 2011. This decrease in total assets was 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.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012

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.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total operating revenue	\$ 2,057,990	\$ 1,939,413	\$ 2,003,507
Total operating expenses	<u>3,621,151</u>	<u>4,189,277</u>	<u>3,731,000</u>
Operating loss	(1,563,161)	(2,249,864)	(1,727,493)
Total nonoperating revenue	<u>2,127,752</u>	<u>1,693,639</u>	<u>1,910,656</u>
Change in net position	564,591	(556,225)	183,163
Net position, beginning of year	<u>770,541</u>	<u>1,326,766</u>	<u>1,143,603</u>
Net position, year-end	<u>\$ 1,335,132</u>	<u>\$ 770,541</u>	<u>\$ 1,326,766</u>

2013

Operating revenues increased by approximately \$119,000 in 2013 compared to 2012, primarily due to an increase in the rates associated with the charge master for the clinics and the laboratory, an increase in the Medicaid billing rate for the long-term care facility and improved clinic revenue from additional services.

Nonoperating revenues increased by approximately \$434,000 in 2013 compared to 2012, primarily due to an increase in ad valorem taxes of approximately \$352,000, which resulted from an increase in the property taxes assessed by the County.

Operating expenses decreased by approximately \$568,000 in 2013 compared to 2012, primarily due to a decrease in purchased services, which resulted from a decreased use of agency nurses.

As the District completed the fiscal year, net position increased by approximately \$565,000 from \$771,000 at June 30, 2012 to \$1,335,000 at June 30, 2013.

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 property taxes assessed by the County. Additionally, grant and other income decreased by approximately \$76,000 due to a decrease in grant funding and interest earned.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012

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.

Highlights of 2013 Performance vs. Fiscal Year Budget

- Net patient service revenue was under budget by approximately \$61,000 due to lower than anticipated patient census days.
- Salaries, wages, and employee benefits expense were under budget by approximately \$171,000 due to cost containment measures.
- Purchased services and other expenses were under budget by approximately \$190,000 due to a decrease in the use of agency nurses.
- Ad valorem taxes (mill levy) income was over budget by approximately \$154,000 due to an increase in property taxes assessed by the County.

Capital Assets

At the end of fiscal year 2013, the District had approximately \$951,000 invested in capital assets, net of accumulated depreciation, including land and land improvements, buildings and building improvements, and equipment. The amount represents a net decrease of approximately \$24,000 from the prior year, due to current year depreciation in excess of capital asset additions. For fiscal year 2012, the decrease of \$53,000 from 2011 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 2014's Budget and Rates

Key factors affecting 2014'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 \$74,000 for the two clinics.
- The Springer facility received a \$12 increase to \$155 to their approved Medicaid Low Nursing Facility (LNF) care rate in fiscal year 2013. This higher rate is expected to remain in place for fiscal year 2014.
- 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 2014.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2013 and 2012

- The Cimarron clinic now has a new Physician Assistant who is working two days per week and the Moreno Valley Clinic has a new Nurse Practitioner who is working two days per week, which is steadily increasing business at both clinics.
- Health Insurance costs are projected to decrease in 2014 due to the higher deductible plan; however, an increase in liability coverage is expected due to increases in claims in the overall long-term care industry.
- Management expects an increase in total net assets from 2013 to 2014, slightly above break-even.

Contacting the District's Financial Management

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

South Central Colfax County Special Hospital District
P.O. Box 458
Springer, New Mexico 87747
(575) 483-2443

Basic Financial Statements

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

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 80,906	\$ 321,608
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$45,000 in 2013 and \$29,000 in 2012	343,841	237,611
Ad valorem taxes receivable	356,510	19,322
Grants receivable	10,640	12,971
Prepaid expenses	50,473	19,914
Supplies inventory	77,145	87,246
Total current assets	919,515	698,672
Capital assets, net	951,356	975,645
Total assets	\$ 1,870,871	\$ 1,674,317
 Liabilities and Net Position		
Current liabilities		
Due to management company	\$ 289,825	\$ 697,024
Accounts payable	48,504	26,881
Accrued payroll	64,898	54,231
Accrued compensated absences	96,501	82,638
Other accrued liabilities	36,011	43,002
Total current liabilities	535,739	903,776
Net position		
Net investment in capital assets	951,356	975,645
Unrestricted	383,776	(205,104)
Total net position	1,335,132	770,541
Total liabilities and net position	\$ 1,870,871	\$ 1,674,317

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 Position
For the Years Ended June 30,

	2013	2012
Operating Revenue		
Net patient service revenue	<u>\$ 2,057,990</u>	<u>\$ 1,939,413</u>
Operating Expenses		
Salaries, wages and employee benefits	2,152,587	2,272,801
Purchased services and other	910,093	1,390,528
Supplies	373,281	370,597
Depreciation	97,938	100,938
Insurance	<u>87,252</u>	<u>54,413</u>
Total operating expenses	<u>3,621,151</u>	<u>4,189,277</u>
Operating loss	<u>(1,563,161)</u>	<u>(2,249,864)</u>
Nonoperating Revenue		
Ad valorem taxes	1,958,596	1,606,770
Grants and other	<u>169,156</u>	<u>86,869</u>
Total nonoperating revenue	<u>2,127,752</u>	<u>1,693,639</u>
Change in net position	564,591	(556,225)
Net position, beginning of year	<u>770,541</u>	<u>1,326,766</u>
Net position, end of year	<u><u>\$ 1,335,132</u></u>	<u><u>\$ 770,541</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,

	2013	2012
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 1,951,760	\$ 2,060,971
Cash paid to employees	(2,135,048)	(2,267,608)
Cash paid to suppliers	<u>(1,776,660)</u>	<u>(1,504,599)</u>
Net cash used by operating activities	<u>(1,959,948)</u>	<u>(1,711,236)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	1,621,408	1,590,592
Grants and other	<u>171,487</u>	<u>91,298</u>
Net cash provided by noncapital financing activities	<u>1,792,895</u>	<u>1,681,890</u>
Cash flows from capital and related financing activities		
Capital asset purchases	(73,649)	(49,361)
Other capital and related financing activities	<u>-</u>	<u>1,705</u>
Net cash used by capital and related financing activities	<u>(73,649)</u>	<u>(47,656)</u>
Net change in cash and cash equivalents	(240,702)	(77,002)
Cash and cash equivalents, beginning of year	<u>321,608</u>	<u>398,610</u>
Cash and cash equivalents, end of year	<u>\$ 80,906</u>	<u>\$ 321,608</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,563,161)	\$ (2,249,864)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	97,938	100,938
Change in allowance for estimated uncollectible accounts	16,369	(429,383)
Changes in assets and liabilities		
Patient accounts receivable, gross	(122,599)	538,597
Supplies inventory	(20,458)	412,776
Due to management company	(407,199)	(90,756)
Accounts payable	21,623	1,263
Accrued payroll	10,667	(46,486)
Accrued compensated absences	13,863	41,503
Other accrued liabilities	<u>(6,991)</u>	<u>10,176</u>
Net cash used by operating activities	<u>\$ (1,959,948)</u>	<u>\$ (1,711,236)</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>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash	<u>\$ 23,816</u>	<u>\$ 18,827</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 23,816</u>	<u>\$ 18,827</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, 2013 and 2012

1) Organization and Operations

South Central Colfax County Special Hospital District (the “District”) operates a long-term care facility in Springer, New Mexico and primary care clinics in Angel Fire and Cimarron, New Mexico. The District was created under New Mexico Statutes Sections 4-48A-1 to 4-48A-30, NMSA 1978 Compilation, known as “The Special Hospital District Act.” The District’s operations are funded primarily by revenues from healthcare operations and a mill levy tax assessed 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 Health Services, Inc. (also known as “Holy Cross Hospital” (HCH)) to provide certain management services to the District, effective January 1, 2011. Management fees approximated \$123,000 and \$129,000 in 2013 and 2012, respectively, and are included in purchased services and other in the accompanying statements of revenues, expenses and changes in net position. Included in the due to management company of approximately \$290,000 and \$697,000 at June 30, 2013 and 2012, respectively, on the accompanying statements of net position are management fees as well as other amounts due to the management company for payroll, supplies, and other expenses paid on behalf of the District by HCH.

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 position. 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, 2013 and 2012

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 District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The 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.

New Accounting Pronouncements

In 2013, the District implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance previously contained in FASB and AICPA pronouncements issued on or before November 30, 1989 that does not conflict with or contradict GASB pronouncements.

In 2013, the District also implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This statement basically provides a framework that specifies where deferred outflows of resources and deferred inflows of resources—as well as assets and liabilities—should be displayed. The statement also discusses how net position—no longer net assets—should be displayed.

Use of Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments, other than cash limited as to use, with an original maturity of three months or less. The District's cash and cash equivalents consist of cash deposits held in bank checking and savings accounts as of June 30, 2013.

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. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that amounts ultimately collected will materially differ from net patient accounts receivable recorded in the accompanying statements of financial position. Accounts are considered delinquent and subsequently written off as bad debts based on specific circumstances of each account.

Supplies Inventory

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

Capital Assets

Capital assets are recorded at cost. Typically, personal property and equipment costing \$5,000 or more are capitalized in accordance with Section 12-6-10 NMSA 1978, in addition to outlays for items that significantly extend the useful life of a capital asset. This, however, does not preclude the District from capitalizing costs below this amount when control over such assets is desired. Costs incurred for repair and maintenance are expensed as incurred.

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

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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

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, accordingly all accrued compensated absences are current liabilities. 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.

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 2013 and 2012.

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, 2013 and 2012.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

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, 2013, budgeted operating expenses exceeded actual total operating expenses.

Income Taxes

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

Subsequent Events

Subsequent events through October 7, 2013, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2013, 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, 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, 2013, all of the District’s deposits were insured by the FDIC. As of June 30, 2013, the District had deposits with a bank balance of \$140,388, including \$24,010 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, 2012, all of the District’s deposits were insured by the FDIC. The carrying amount of the District’s deposits as of June 30, 2013 and 2012 was \$79,906 and \$321,608, respectively. The District’s petty cash fund totaled \$1,000 as of June 30, 2013 and 2012.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

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:

	2013	2012
Gross charges		
Inpatient	\$ 1,580,769	\$ 1,649,415
Outpatient	<u>957,808</u>	<u>681,624</u>
	2,538,577	2,331,039
Less contractual adjustments and provision for uncollectible accounts		
	<u>480,587</u>	<u>391,626</u>
Net patient service revenue	<u>\$ 2,057,990</u>	<u>\$ 1,939,413</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. In 2013, the County assessed a mill levy of 4.25% per every \$1,000 of commercial and residential property values within the County’s jurisdiction, while in 2012, assessments were 4.25% on commercial and 2.75% on residential property values.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2013, was as follows:

	Beginning Balance, as restated	Additions	Deletions	Adjustments	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 41,937	\$ -	\$ -	\$ -	\$ 41,937
Construction in progress	-	5,360	-	-	5,360
Total capital assets not being depreciated	41,937	5,360	-	-	47,297
<i>Capital assets being depreciated</i>					
Land improvements	171,547	-	-	-	171,547
Buildings and improvements	1,552,472	43,515	-	-	1,595,987
Equipment	379,619	24,774	-	-	404,393
Total capital assets being depreciated	2,103,638	68,289	-	-	2,171,927
<i>Less accumulated depreciation for</i>					
Land improvements	55,784	10,440	-	-	66,224
Buildings and improvements	863,942	51,499	-	-	915,441
Equipment	250,204	35,999	-	-	286,203
Total accumulated depreciation	1,169,930	97,938	-	-	1,267,868
Total capital assets being depreciated, net	933,708	(29,649)	-	-	904,059
Capital assets, net	\$ 975,645	\$ (24,289)	\$ -	\$ -	\$ 951,356

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

	Beginning Balance, as restated	Additions	Deletions	Transfers	Ending Balance, as restated
<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	70,076	-	(1,705)	(26,434)	41,937
<i>Capital assets being depreciated</i>					
Land improvements	171,547	-	-	-	171,547
Buildings and improvements	1,526,038	-	-	26,434	1,552,472
Equipment	330,258	49,361	-	-	379,619
Total capital assets being depreciated	2,027,843	49,361	-	26,434	2,103,638
<i>Less accumulated depreciation for</i>					
Land improvements	47,346	8,438	-	-	55,784
Buildings and improvements	821,334	42,608	-	-	863,942
Equipment	200,312	49,892	-	-	250,204
Total accumulated depreciation	1,068,992	100,938	-	-	1,169,930
Total capital assets being depreciated, net	958,851	(51,577)	-	26,434	933,708
Capital assets, net	\$ 1,028,927	\$ (51,577)	\$ (1,705)	\$ -	\$ 975,645

The District recorded a prior-period adjustment of \$609,880 related to previously capitalized assets that were determined during 2013 to have no longer been in use at the beginning of fiscal year 2012. Such assets were fully depreciated, thus historical cost and accumulated depreciation were reduced equally, and there was no effect on net position.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

The beginning fiscal year 2012 capital asset and accumulated depreciation balances have been restated to reflect the adjustment.

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2013, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 82,638	\$ 167,261	\$ 153,398	\$ 96,501	\$ 96,501

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

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.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

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, and enforce standards for health information. Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, several of the HIPAA security and privacy requirements have been expanded, including business associates being subject to civil and criminal penalties and enforcement proceedings for violations of HIPAA. Management believes that the District is 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 has commercial insurance policies for directors' and officers' liability through Chartis, Inc. through August 2014.

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 such claims in the accompanying financial statements. Payments to Chartis, Inc. for malpractice and workers' compensation coverage during the period ending June 30, 2013 and 2012, approximated \$87,000 and \$54,000, respectively. Settled claims have not exceeded insurance coverage in any of the three preceding years.

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

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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

Ad Valorem Taxes—The current mill levy expires December 31, 2015, and is voted on by general ballot every four years.

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:

	2013	2012
Medicaid	48%	48%
Self-pay	26	26
Commercial insurance and other	16	15
Medicare	10	11
	100%	100%

10) Defined Contribution 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, 2013, were \$68,331 and \$17,589, respectively. Employee and employer contributions to the plan for the year ended June 30, 2012, were \$55,540 and \$10,748, respectively. There are not stand-alone financial reports available to the public for the plan.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2013 and 2012

11) Future Operations

The District has often experienced operating losses in recent years. Management is confident that the District will continue as a going concern through fiscal year 2014 and beyond because of the following:

- ◆ The District received a significant increase in its approved Low Nursing Facility (LNF) rate. The increase was from \$143 to \$155 per patient day, or an 8% increase, beginning in fiscal year 2013 and extending into 2014.
- ◆ The District anticipates approximately \$400,000 in additional mill levy revenue from the Colfax County Treasurer's office in fiscal year 2014.
- ◆ 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 employee benefits expenses during 2014.
- ◆ The District's nursing staff at its long-term care facility in Springer, New Mexico is at full capacity and management does not anticipate significant agency staffing costs in the future. This should maintain lower operating expenses in fiscal year 2014, as the cost of agency staffing is well above typical salary expenses.

12) Economic Dependency

The District is significantly dependent on the continued receipt of ad valorem taxes, and management believes the voters of Colfax County will continue to support the tax.

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue				
Net patient service revenue	\$ 2,119,014	\$ 2,119,014	\$ 2,057,990	\$ (61,024)
Operating Expenses				
Salaries, wages and employee benefits	2,323,542	2,323,542	2,152,587	170,955
Purchased services and other	1,099,602	1,099,602	910,093	189,509
Supplies	335,761	335,761	373,281	(37,520)
Depreciation	130,000	130,000	97,938	32,062
Insurance	67,000	67,000	87,252	(20,252)
Total operating expenses	<u>3,955,905</u>	<u>3,955,905</u>	<u>3,621,151</u>	<u>334,754</u>
Operating loss	<u>(1,836,891)</u>	<u>(1,836,891)</u>	<u>(1,563,161)</u>	<u>273,730</u>
Nonoperating Revenue				
Ad valorem taxes	1,804,730	1,804,730	1,958,596	153,866
Grants and other	82,000	82,000	169,156	87,156
Total nonoperating revenue	<u>1,886,730</u>	<u>1,886,730</u>	<u>2,127,752</u>	<u>241,022</u>
Change in net position	<u>\$ 49,839</u>	<u>\$ 49,839</u>	<u>564,591</u>	<u>\$ 514,752</u>
Net position, beginning of year			<u>770,541</u>	
Net position, end of year			<u>\$ 1,335,132</u>	

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	<u>3,967,935</u>	<u>3,967,935</u>	<u>4,189,277</u>	<u>(221,342)</u>
Operating loss	<u>(1,789,220)</u>	<u>(1,789,220)</u>	<u>(2,249,864)</u>	<u>(460,644)</u>
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	<u>1,790,000</u>	<u>1,790,000</u>	<u>1,693,639</u>	<u>(96,361)</u>
Change in net position	<u>\$ 780</u>	<u>\$ 780</u>	<u>(556,225)</u>	<u>\$ (557,005)</u>
Net position, beginning of year			<u>1,326,766</u>	
Net position, end of year			<u>\$ 770,541</u>	

Notes to 2012 and 2013 Budget and Actual Schedules

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

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

	2013	2012
Additions		
Receipts from patients	\$ 139,838	\$ 142,067
Deductions		
Payments made on behalf of patients	134,849	140,072
Change in fiduciary assets and liabilities	4,989	1,995
Fiduciary assets and liabilities - beginning of year	18,827	16,832
Fiduciary assets and liabilities - end of year	\$ 23,816	\$ 18,827

New Mexico State Auditor's Supplementary Information

South Central Colfax County Special Hospital District
Schedule of Individual Deposit Accounts and Pledged Collateral
June 30, 2013

Account Name	Account Type	Wells Fargo		International Bank		U.S. Bank		Book Balance
		Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance	
Operating Account	Noninterest-bearing checking	\$ -	\$ -	\$ -	\$ -	\$ 74,387	\$ 36,650	
Moreno Valley Depository Bank Account	Noninterest-bearing checking			30,728	31,645			
Athena Lockbox Account	Lockbox	-	-	-	-	2,226	2,574	
Cimarron Clinic Operating Account	Noninterest-bearing checking	-	-	4,711	4,711	-	-	
LTC Operating Account (depository)	Interest-bearing checking	<u>4,326</u>	<u>4,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total amount of deposits in bank		<u>4,326</u>	<u>\$ 4,326</u>	<u>35,439</u>	<u>\$ 36,356</u>	<u>76,613</u>	<u>\$ 39,224</u>	
Less FDIC insurance		<u>(4,326)</u>		<u>(35,439)</u>		<u>(76,613)</u>		
Total uninsured public funds		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		
Total book balance of deposits								\$ 79,906
Add cash on hand	Petty Cash							<u>1,000</u>
Total cash and cash equivalents								<u>\$ 80,906</u>

**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and agency fund of South Central Colfax County Special Hospital District (the “District”), as of and for the year ended June 30, 2013, which collectively comprise the District’s basic financial statements, as well as the budget and actual comparison schedules for the year ended June 30, 2013, and the schedule of changes in fiduciary assets and liabilities – agency fund, presented as supplementary information, and have issued our report thereon dated October 7, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies. Refer to findings FS-2011-2 and FS-2011-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and Section 12-6-5 NMSA 1987, and which are described in the accompanying schedule of findings and responses as items SA-2011-1, SA-2013-1 and SA-2012-2.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
October 7, 2013

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2013

Section I — Financial Statement Findings

FS 2011-2 — Patient Accounts Receivable Allowances — Significant Deficiency

Criteria or Specific Requirement: Allowances for uncollectible patient accounts receivable and related contractual allowances should be estimated and adjusted based upon an appropriate methodology.

Condition: The District did not follow its documented methodology for estimating the allowances for doubtful patient accounts receivable at June 30, 2013. In addition, the documented methodology did not consider an analysis of specific payer categories, allowances for aging categories under 90 days, or contractual discounts and allowances.

Cause: A thorough analysis of the allowance for doubtful patient accounts receivable was not performed at year-end in accordance with the District's established allowance policy.

Effect: Net patient accounts receivable at June 30, 2013 was overstated by approximately \$30,000.

Auditors' Recommendations: The District's methodology should be consistently applied and analyzed on a regular basis to ensure that it is continually representative of the District's activities and accurately states net patient receivables. The methodology should be adjusted to give consideration to the payment trends of specific payers, the collectability of accounts aged less than 90 days, and the need to record a reserve for contractual discounts and allowances.

Management's Response: The current methodology for calculating the allowance will be applied to the August 2013 internal financial statements. Going forward, the patient accounts receivable, contractual allowances and bad debt will be monitored on a monthly basis. Allowance estimates for contractals and bad debt will be adjusted monthly. These adjustments will be based on historic collection percentages and analysis of subsequent collections on existing accounts receivable. Consideration will be given to the account's age and the payer type, and the policy will be updated accordingly. The Interim CFO at Holy Cross Hospital (HCH) will be responsible for this corrective action.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2013

Section I — Financial Statement Findings

FS 2011-3 — Account Reconciliations — Significant Deficiency

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 accurately reflect the District's current financial position.

Condition: The internally generated trial balance and related financial statements as of June 30, 2013, and the trial balance provided to REDW to begin the audit process, did not include certain month-end adjusting entries and several accounts had not been reconciled or properly recorded. This meant that the Board was not receiving timely and accurate financial information, and the audit could not begin in a timely manner.

Cause: The management company experienced significant turnover near year-end, which resulted in several reconciliations and required adjustments not occurring in a timely manner. A thorough review of the financial statements was not performed prior to the Board presentation.

Effect: The monthly financial statement information prepared and presented was inaccurate and could have affected Board decision making.

Auditors' Recommendations: All accounts should be reconciled on a regular basis, and the financial statements should be adequately reviewed and approved prior to the monthly Board meetings. The District should monitor the services provided by the fiscal agent to ensure that financial information received is timely and accurate.

Management's Response: All general ledger accounts will be reconciled on a monthly or quarterly basis, depending on the account type. All reconciliations will be reviewed and approved by the Accounting Manager or Interim CFO at HCH. Account variances and errors will be resolved in a timely manner.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2013

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 2011-1 — Capital Assets — Other

Criteria or Specific Requirement: New Mexico State Statute section 12-6-10 requires organizations to perform a periodic review and recalculation of the capital asset listing and related depreciation to help ensure the accuracy of capital asset, accumulated depreciation, and depreciation expense accounts. New Mexico State Statute section 13-6-1 through 8 requires that the disposition of property be properly tracked, analyzed, and if it meets certain specifications, be disposed of and reported in a means that complies with the statute.

Condition: The capital asset listing was not properly maintained and depreciation was not consistently applied. There were many fully depreciated assets that were no longer in service at the District, but were still included in the capital asset listing. After a full capital asset inventory was performed during fiscal year 2013, a \$609,000 prior period adjustment was required to remove these fully depreciated assets that had either not been in the custody of the District for several years or which the District could not identify. Adequate documentation was not on file to support whether the original disposition of these assets complied with state statutes. Additionally, there were several assets with useful lives that were inconsistent with the established policy, depreciation methods for half-year convention were not consistently applied, and the District expensed, rather than capitalizing, the costs related to a kitchen remodel project. Such errors were not identified during the month end reconciliation and close process. See FS 2011-3 — Account Reconciliations — Significant Deficiency above.

Cause: The District does not have a process or policy in place to ensure that their capital assets, accumulated depreciation, and depreciation expense are accurately tracked and reported.

Effect: 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: The District's capital asset listing should be periodically reviewed for completeness and accuracy. 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 depreciation to ensure that useful lives and depreciation methods are being consistently applied.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2013

SA 2011-1 — Capital Assets — Other — continued

Management's Response: The District's capital asset listing has been cleaned up and will be reviewed and updated monthly for any additions or deletions. Depreciation schedules will also be updated. Disposal of assets will follow State regulations, and additions will follow policy guidelines. The District will complete an inventory of all assets, both capital and noncapital, prior to June each year. The Interim CFO at Holy Cross Hospital (HCH) will be responsible for this corrective action.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2013

SA 2013-1 — Requirements for Contracting and Conducting Audits of Agencies — Other

Criteria or Specific Requirement: To solicit contracted audit services, a completed IPA Recommendation Form is to be delivered to the New Mexico Office of the State Auditor in compliance with Paragraph 6 of Subsection G of 2.2.2.8 NMAC by April 15.

Condition: There was no documentation to show that the District submitted the IPA Recommendation Form to the State Auditor by the statutory deadline. The State of New Mexico Audit Contract was not signed until May 15, 2013.

Cause: The District failed to submit the IPA Recommendation Form to the State Auditor by the required deadline of April 15, 2013.

Effect: By not submitting the IPA Recommendation Form by the required deadline, the District did not comply with such State Auditor requirements.

Auditors' Recommendations: Ensure that the IPA Recommendation Form is submitted to the State Auditor by the April 15th deadline.

Management's Response: The District Administration has established March 15 as the date by which it must have the contract process started for that year's audit. The IPA form is to be completed and filed no later than April 10th each year. The District Administrator will be responsible for this filing and completion of the appropriate forms.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2013

SA 2012-2 — Payroll Supporting Documentation — Other

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

Condition: We identified six instances where pay rates on Personnel Action Forms were not approved by the District Administrator.

Cause: The formal policy does not specify who must approve Personnel Action Forms; however, the form itself has a place for Director/Administrator level approval. These signature lines were left blank because of the lack of a specific policy.

Effect: Appropriate documentation was not on file to support whether pay rates were appropriate and properly approved.

Auditors' Recommendations: The District should decide what level of approval should be required for Personnel Action Forms. The policy should be updated to specify this requirement, the approval signature line should be updated, if required, and the policy should be consistently applied.

Management's Response: All Personnel Action Forms will require two signatures effective September 30, 2013. The signatures must include the employee's supervisor and the Human Resources Generalist. The District Administrator will sign in the absence of the supervisor. All personnel changes made in the system will be supported by a Personnel Action Form and verification of proper entry will be completed.

South Central Colfax County Special Hospital District
Current Status Schedule of 2012 Audit Findings
For the Year Ended June 30, 2013

Prior-Year Number	Description	Current Status
FS 2011-1	Bank Accounts	Resolved
FS 2011-2	Patient Accounts Receivable and Allowances	Unresolved
FS 2011-3	Account Reconciliations	Unresolved
SA 2011-1	Capital Assets	Unresolved
SA 2011-2	Journal Entries	Resolved
SA 2011-3	Accounts Payable	Resolved
SA 2012-1	Actual Expenditures Exceeded Budget Expenditures	Resolved
SA 2012-2	Payroll Supporting Documentation	Unresolved

South Central Colfax County Special Hospital District
Corrective Action Plan
June 30, 2013

Audit Finding	Responsible Party	Corrective Action to be Taken	Target Date
FS 2011-2	HCH Interim CFO	See Management's response FS 2011-2	October 14, 2013
FS 2011-3	HCH Interim CFO	See Management's response FS 2011-3	October 14, 2013
SA 2011-1	HCH Interim CFO	See Management's response SA 2011-1	October 14, 2013
SA 2013-1	District Administrator	See Management's response SA 2013-1	October 14, 2013
SA 2012-2	District Administrator	See Management's response SA 2012-2	October 14, 2013

South Central Colfax County Special Hospital District
Other Disclosures
For the Year Ended June 30, 2013

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 27, 2013, with the following attending:

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

Holy Cross Hospital
Richard Archuleta, Controller

REDW_{LLC}
Steve Cogan, CPA, Principal
Halie Garcia, CPA, Senior Manager
Jonathon Rothweiler, Senior

A presentation was made to a closed session of the board of trustees on September 30, 2013, with the following attending:

South Central Colfax County Special Hospital District
Marian Vigil, Chairperson
Steve Briggs, Vice Chairperson
Fredrick Martinez, Secretary
Bruce Jassmann, Board Member
Nathan Lay, Board Member
Bill Norris, District Administrator
Sandra Salazar, Board Support
Kaycee Sandoval, Human Resources

Holy Cross Hospital
Dayna Duran, Accountant

REDW_{LLC}
Halie Garcia, CPA, Senior Manager

Financial Statement Preparation

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