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

*Financial Statements,
Supplementary Information, and
Independent Auditor's Reports
June 30, 2014 and 2013*



CPAs | Business & Financial Advisors

South Central Colfax County Special Hospital District

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**South Central Colfax County Special Hospital District
Board of Trustees and Principal Employee
June 30, 2014**

Board of Trustees

Marian Vigil
Steve Briggs
Frederick Martinez
Nate Lay
Bruce Jassman

Madame Chair
Vice Chairperson
Secretary/Treasurer
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 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, is 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. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare 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 10, 2014, 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 10, 2014

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, 2014 and 2013

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 years that ended June 30, 2014 and 2013. This presentation is intended to enhance the reader's 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 position and the statements of revenues, expenses, and changes in net position 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 an agency 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>2014</u>	2013	<u>2012</u>
Current assets	\$ 943,563	\$ 919,515	\$ 698,672
Noncurrent assets	<u>1,000,744</u>	<u>951,356</u>	<u>975,645</u>
Total assets	<u>\$ 1,944,307</u>	<u>\$ 1,870,871</u>	<u>\$ 1,674,317</u>
Current liabilities	<u>\$ 365,026</u>	<u>\$ 535,739</u>	<u>\$ 903,776</u>
Net position			
Net investment in capital assets	1,000,744	951,356	975,645
Unrestricted	<u>578,537</u>	<u>383,776</u>	<u>(205,104)</u>
Total net position	<u>1,579,281</u>	<u>1,335,132</u>	<u>770,541</u>
Total liabilities and net position	<u>\$ 1,944,307</u>	<u>\$ 1,870,871</u>	<u>\$ 1,674,317</u>

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

2014

The District's total assets increased by approximately \$73,000 in 2014 compared to 2013. This increase in total assets was due primarily to the following:

- Cash and cash equivalents increased by approximately \$354,000 due to the timing of the ad valorem tax payments near year-end.
- Capital assets increased \$49,000 due to capital asset additions in excess of depreciation.

The above changes were offset as follows:

- Ad valorem taxes receivable decreased by approximately \$297,000 due to the timing of mill levy receipts from the County Treasurer's office.

The District's total liabilities decreased approximately \$171,000 in 2014 compared to 2013, due primarily to the timing and amount of payments to the management company offset by an increase in accounts payable due to the timeliness of vendor payments.

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.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total operating revenue	\$ 1,979,424	\$ 2,057,990	\$ 1,939,413
Total operating expenses	<u>3,953,760</u>	<u>3,621,151</u>	<u>4,189,277</u>
Operating loss	<u>(1,974,336)</u>	(1,563,161)	(2,249,864)
Total nonoperating revenue	<u>2,218,485</u>	<u>2,127,752</u>	<u>1,693,639</u>
Change in net position	<u>244,149</u>	564,591	(556,225)
Net position, beginning of year	<u>1,335,132</u>	<u>770,541</u>	<u>1,326,766</u>
Net position, end of year	<u>\$ 1,579,281</u>	<u>\$ 1,335,132</u>	<u>\$ 770,541</u>

2014

Operating revenues decreased by approximately \$79,000 in 2014 compared to 2013, primarily due to an increase in the contractual discounts and allowances and patient account write-offs.

Nonoperating revenues increased by approximately \$91,000 in 2014 compared to 2013, primarily due to an increase in ad valorem taxes of approximately \$105,000, which resulted from an increase in the property taxes assessed by the County.

Operating expenses increased by approximately \$333,000 in 2014 compared to 2013, primarily due to an increase in salaries, wages, and employee benefits and supplies expense, which resulted from higher staffing levels, higher census, and increases in medical related costs.

As the District completed the fiscal year, net position increased by approximately \$244,000 from \$1,335,000 at June 30, 2013 to \$1,579,000 at June 30, 2014.

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.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

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.

Highlights of 2014 Performance vs. Fiscal Year Budget

- Net patient service revenue was under budget by approximately \$109,000 due to higher than anticipated contractual discounts and account write-offs.
- Salaries, wages, and employee benefits expenses were over budget by approximately \$180,000 due to higher than expected staffing levels.
- Supplies expense was over budget by approximately \$78,000 due to an increase in supply costs for medical, office and food supplies during the year.
- Ad valorem taxes (mill levy) income was over budget by approximately \$576,000 due to an increase in property taxes assessed by the County.

Capital Assets

At the end of fiscal year 2014, the District had approximately \$1,001,000 invested in capital assets, net of accumulated depreciation, including land and land improvements, buildings and building improvements, and equipment. The amount represents a net increase of approximately \$49,000 from the prior year, due to current year capital asset additions in excess of depreciation. For fiscal year 2013, the decrease of \$24,000 from 2012 was due to depreciation in excess of capital asset additions. Refer to the notes to the financial statements for further information about capital assets.

Economic Factors and 2015's Budget and Rates

Key factors affecting 2015'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 \$4 increase to \$159 to their approved Medicaid Low Nursing Facility (LNF) care rate. It is expected that the rate will be passed through to the Managed Care Organizations (MCOs) sometime in fiscal year 2015.
- 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 2015.
- The Cimarron and Moreno Valley clinics now have additional practitioners in place to accommodate the increased demand for services in those areas. The increase in providers will serve to increase business at both clinics.
- Management expects an increase in total net position from 2014 to 2015, slightly above break-even.

South Central Colfax County Special Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

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,

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 434,432	\$ 80,906
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$76,296 in 2014 and \$45,204 in 2013	335,157	343,841
Ad valorem taxes receivable	59,016	356,510
Grants receivable	-	10,640
Prepaid expenses	28,712	50,473
Supplies inventory	86,246	77,145
Total current assets	943,563	919,515
Capital assets, net	1,000,744	951,356
Total assets	\$ 1,944,307	\$ 1,870,871
Liabilities and Net Position		
Current liabilities		
Due to management company	\$ 4,112	\$ 289,825
Accounts payable	132,372	48,504
Accrued payroll	78,247	64,898
Accrued compensated absences	101,075	96,501
Other accrued liabilities	49,220	36,011
Total current liabilities	365,026	535,739
Net position		
Net investment in capital assets	1,000,744	951,356
Unrestricted	578,537	383,776
Total net position	1,579,281	1,335,132
Total liabilities and net position	\$ 1,944,307	\$ 1,870,871

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,

	2014	2013
Operating Revenue		
Net patient service revenue	<u>\$ 1,979,424</u>	<u>\$ 2,057,990</u>
Operating Expenses		
Salaries, wages and employee benefits	2,340,604	2,152,587
Purchased services and other	935,423	910,093
Supplies	473,091	373,281
Depreciation	111,779	97,938
Insurance	<u>92,863</u>	<u>87,252</u>
Total operating expenses	<u>3,953,760</u>	<u>3,621,151</u>
Operating loss	<u>(1,974,336)</u>	<u>(1,563,161)</u>
Nonoperating Revenue		
Ad valorem taxes	2,063,796	1,958,596
Grants and other	<u>154,689</u>	<u>169,156</u>
Total nonoperating revenue	<u>2,218,485</u>	<u>2,127,752</u>
Change in net position	244,149	564,591
Net position, beginning of year	<u>1,335,132</u>	<u>770,541</u>
Net position, end of year	<u><u>\$ 1,579,281</u></u>	<u><u>\$ 1,335,132</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,

	2014	2013
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 1,988,108	\$ 1,951,760
Cash paid to employees	(2,309,472)	(2,135,048)
Cash paid to suppliers	<u>(1,690,562)</u>	<u>(1,776,660)</u>
Net cash used by operating activities	<u>(2,011,926)</u>	<u>(1,959,948)</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	2,361,290	1,621,408
Grants and other	<u>165,329</u>	<u>171,487</u>
Net cash provided by noncapital financing activities	<u>2,526,619</u>	<u>1,792,895</u>
Cash flows from capital and related financing activities		
Capital asset purchases	<u>(161,167)</u>	<u>(73,649)</u>
Net cash used by capital and related financing activities	<u>(161,167)</u>	<u>(73,649)</u>
Net change in cash and cash equivalents	353,526	(240,702)
Cash and cash equivalents, beginning of year	<u>80,906</u>	<u>321,608</u>
Cash and cash equivalents, end of year	<u>\$ 434,432</u>	<u>\$ 80,906</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,974,336)	\$ (1,563,161)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	111,779	97,938
Change in allowance for estimated uncollectible accounts	31,092	16,369
Changes in assets and liabilities		
Patient accounts receivable, gross	(22,408)	(122,599)
Prepaid expenses	21,761	(30,559)
Supplies inventory	(9,101)	10,101
Due to management company	(285,713)	(407,199)
Accounts payable	83,868	21,623
Accrued payroll	13,349	10,667
Accrued compensated absences	4,574	13,863
Other accrued liabilities	<u>13,209</u>	<u>(6,991)</u>
Net cash used by operating activities	<u>\$ (2,011,926)</u>	<u>\$ (1,959,948)</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>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash	<u>\$ 9,130</u>	<u>\$ 23,816</u>
Liabilities		
Current liabilities		
Funds held for patients	<u>\$ 9,130</u>	<u>\$ 23,816</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, 2014 and 2013

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 \$122,000 and \$123,000 in 2014 and 2013, 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 \$4,000 and \$290,000 at June 30, 2014 and 2013, 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 an agency 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, 2014 and 2013

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

Agency Fund

The District's agency 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, 2014 and 2013

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, 2014.

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, 2014 and 2013

Compensated Absences

The District accrues paid time off (PTO) of 22.85 to 36.20 days per year, based on length of service, hours of service and job classification, for substantially all employees. After one year of service, employees are eligible to cash out up to 40 hours of PTO at 80% of its value. Employees must maintain a balance of at least 80 hours of PTO after cashing out. Accordingly, all accrued compensated absences are current liabilities and are shown as such on the Statement of Net Position. After three months of service, accrued PTO is payable to employees upon termination at 100% of the accrued balance. Employees whose positions are eliminated through a reduction in force or reorganization, or whose hours drop below ten hours per week, are paid the full amount of accrued PTO on the effective date of termination.

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 2014 and 2013.

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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

Accrued Expenses

Accrued expenses consist of wages and benefits payable to employees and certain professional fees payable as of June 30, 2014 and 2013.

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, 2014, total actual operating expenses exceeded budgeted 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 10, 2014, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2014, 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, 2014, the District had deposits with a bank balance of \$481,870, including \$9,406 of patient trust funds in the District’s agency fund. Of this total bank balance, \$69,308 is subject to custodial credit risk, as this amount was not insured or collateralized. As of June 30, 2013, all of the District’s deposits were insured by the FDIC. The carrying amount of the District’s deposits as of June 30, 2014 and 2013, was \$433,432 and \$79,906, respectively. The District’s petty cash fund totaled \$1,000 as of June 30, 2014 and 2013.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

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:

	2014	2013
Gross charges		
Inpatient	\$ 1,693,380	\$ 1,580,769
Outpatient	1,079,652	957,808
	2,773,032	2,538,577
Less contractual adjustments and provision for uncollectible accounts	793,608	480,587
Net patient service revenue	\$ 1,979,424	\$ 2,057,990

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 2014 and 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. The County serves as an intermediary collecting agency and remits the District’s share of ad valorem tax collections. The District does not maintain detailed records of ad valorem tax receivable by individual tax payors.

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

6) Capital Assets

Capital asset activity of the District for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 41,937	\$ -	\$ -	\$ -	\$ 41,937
Construction in progress	5,360	109,145	-	-	114,505
Total capital assets not being depreciated	<u>47,297</u>	<u>109,145</u>	<u>-</u>	<u>-</u>	<u>156,442</u>
<i>Capital assets being depreciated</i>					
Land improvements	171,547	-	-	-	171,547
Buildings and improvements	1,595,987	7,283	-	-	1,603,270
Equipment	404,393	44,739	-	-	449,132
Total capital assets being depreciated	<u>2,171,927</u>	<u>52,022</u>	<u>-</u>	<u>-</u>	<u>2,223,949</u>
<i>Less accumulated depreciation for</i>					
Land improvements	66,224	7,847	-	-	74,071
Buildings and improvements	915,441	60,609	-	-	976,050
Equipment	286,203	43,323	-	-	329,526
Total accumulated depreciation	<u>1,267,868</u>	<u>111,779</u>	<u>-</u>	<u>-</u>	<u>1,379,647</u>
Total capital assets being depreciated, net	<u>904,059</u>	<u>(59,757)</u>	<u>-</u>	<u>-</u>	<u>844,302</u>
Capital assets, net	<u>\$ 951,356</u>	<u>\$ 49,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,744</u>

The District received \$70,000 in a capital outlay appropriation for the July 1, 2013 through June 30, 2014, appropriation period which was used during the fiscal year towards construction in progress. There was no unexpended balance at June 30, 2014.

Capital asset activity of the District for the year ended June 30, 2013, 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	-	5,360	-	-	5,360
Total capital assets not being depreciated	<u>41,937</u>	<u>5,360</u>	<u>-</u>	<u>-</u>	<u>47,297</u>
<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	<u>2,103,638</u>	<u>68,289</u>	<u>-</u>	<u>-</u>	<u>2,171,927</u>
<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	<u>1,169,930</u>	<u>97,938</u>	<u>-</u>	<u>-</u>	<u>1,267,868</u>
Total capital assets being depreciated, net	<u>933,708</u>	<u>(29,649)</u>	<u>-</u>	<u>-</u>	<u>904,059</u>
Capital assets, net	<u>\$ 975,645</u>	<u>\$ (24,289)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 951,356</u>

In 2013, the District recorded a prior-period adjustment of \$609,880 related to previously capitalized assets that were determined to have no longer been in use at the beginning of

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

the 2013 fiscal year. Such assets were fully depreciated, thus historical cost and accumulated depreciation were reduced equally, and there was no effect on net position.

The beginning fiscal year 2013 capital asset and accumulated depreciation balances have been restated to reflect the adjustment and have correctly carried forward into the 2014 beginning balance.

7) Accrued Compensated Absences

A schedule of changes in the District's accrued compensated absences for June 30, 2014, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 96,501</u>	<u>\$ 167,139</u>	<u>\$ 162,565</u>	<u>\$ 101,075</u>	<u>\$ 101,075</u>

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
<u>\$ 82,638</u>	<u>\$ 167,261</u>	<u>\$ 153,398</u>	<u>\$ 96,501</u>	<u>\$ 96,501</u>

8) Contingencies

Healthcare Regulatory Environment—The healthcare industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. The government continues to conduct reviews and investigations of allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

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 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 2015.

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, 2014 and 2013, approximated \$93,000 and \$87,000, 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

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

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.

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:

	2014	2013
Self-pay	34%	48%
Medicaid	33	26
Commercial insurance and other	22	16
Medicare	11	10
	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, 2014, were \$64,794 and \$19,338,

South Central Colfax County Special Hospital District
Notes to Basic Financial Statements
June 30, 2014 and 2013

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

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 2015 and beyond because of the following:

- ◆ The District received an increase in its approved Low Nursing Facility (LNF) rate. The increase was from \$155 to \$159 per patient day, or a 2.6% increase. Such an increase is expected to be passed through to the providers sometime in fiscal year 2015.
- ◆ The District anticipates the continued receipt of ad valorem tax revenues from the Colfax County Treasurer's office in fiscal year 2015. The percentage of tax applied is determined by the Department of Finance and Administration annually. Although this funding source is expected to continue to be received, the District has budgeted for a potential decrease of \$150,000 as a conservative estimate.
- ◆ 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 2015, as the cost of agency staffing is well above typical salary expenses.
- ◆ The District entered into a business loan agreement with Wells Fargo in September 2014. The terms of the loan include a principal balance of \$250,000, an initial interest rate of 5.25% and a maturity date of one year from the date of the loan. The District plans to use this loan, as needed, to fund ongoing operations.

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 Position—Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue				
Net patient service revenue	\$ 2,088,589	\$ 2,088,589	\$ 1,979,424	\$ (109,165)
Operating Expenses				
Salaries, wages and employee benefits	2,161,030	2,161,030	2,340,604	(179,574)
Purchased services and other	934,719	934,719	935,423	(704)
Supplies	395,160	395,160	473,091	(77,931)
Depreciation	109,016	109,016	111,779	(2,763)
Insurance	108,609	108,609	92,863	15,746
Total operating expenses	<u>3,708,534</u>	<u>3,708,534</u>	<u>3,953,760</u>	<u>(245,226)</u>
Operating loss	<u>(1,619,945)</u>	<u>(1,619,945)</u>	<u>(1,974,336)</u>	<u>(354,391)</u>
Nonoperating Revenue				
Ad valorem taxes	1,488,000	1,488,000	2,063,796	575,796
Grants and other	<u>136,000</u>	<u>136,000</u>	<u>154,689</u>	<u>18,689</u>
Total nonoperating revenue	<u>1,624,000</u>	<u>1,624,000</u>	<u>2,218,485</u>	<u>594,485</u>
Change in net position	<u>\$ 4,055</u>	<u>\$ 4,055</u>	<u>244,149</u>	<u>\$ 240,094</u>
Net position, beginning of year			<u>1,335,132</u>	
Net position, end of year			<u>\$ 1,579,281</u>	

South Central Colfax County Special Hospital District
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
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>	

Notes to 2013 and 2014 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,

	2014	2013
Additions		
Receipts from patients	\$ 101,519	\$ 139,838
Deductions		
Payments made on behalf of patients	116,205	134,849
Change in fiduciary assets and liabilities	(14,686)	4,989
Fiduciary assets and liabilities - beginning of year	23,816	18,827
Fiduciary assets and liabilities - end of year	\$ 9,130	\$ 23,816

New Mexico State Auditor's Supplementary Information

South Central Colfax County Special Hospital District
Schedule of Individual Deposit Accounts and Pledged Collateral
June 30, 2014

Note: Excludes fiduciary fund deposits

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	\$ -	\$ -	\$ -	\$ -	\$ 318,981	\$ 279,020	
Moreno Valley Depository Bank Account	Noninterest-bearing checking			66,319	67,715			
Athena Lockbox Account	Lockbox	-	-	-	-	327	587	
Cimarron Clinic Operating Account	Noninterest-bearing checking	-	-	7,566	7,566	-	-	
LTC Operating Account (depository)	Interest-bearing checking	<u>79,271</u>	<u>78,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total amount of deposits in bank		<u>79,271</u>	<u>\$ 78,544</u>	<u>73,885</u>	<u>\$ 75,281</u>	<u>319,308</u>	<u>\$ 279,607</u>	
Less FDIC insurance		<u>(79,271)</u>		<u>(73,885)</u>		<u>(250,000)</u>		
Total uninsured public funds		<u>\$ -</u>		<u>\$ -</u>		<u>\$ 69,308</u>		
Collateral Requirement - 50% (Section 6-10-17)						\$ 34,654		
Total Pledged Collateral						<u>-</u>		
Amount under collateralized for 50% requirement						<u>\$ (34,654)</u>		
Total book balance of deposits								\$ 433,432
Add cash on hand	Petty Cash							<u>1,000</u>
Total cash and cash equivalents								<u>\$ 434,432</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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as well as the budget and actual comparison schedules for the year ended June 30, 2014, and the schedule of changes in fiduciary assets and liabilities—agency fund, presented as supplementary information, and have issued our report thereon dated October 10, 2014.

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.

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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 the deficiency described in the accompanying schedule of findings and responses as item 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-002 to be a significant deficiency.

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 2014-001 through 2014-004.

The District's Response to Findings

The District's responses to the findings identified in our audit are 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 10, 2014

South Central Colfax County Special Hospital District
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings

2014-001 — Accounts Payable, Unrecorded Liabilities — Material Weakness

Criteria or Specific Requirement: Proper cutoff procedures should be in place to ensure accounts payable is complete at year-end.

Condition: Accounts payable was understated at June 30, 2014.

Cause: A full accounts payable analysis was not performed to identify invoices received subsequent to year-end that related to goods or services received prior to year-end.

Effect: Unrecorded liabilities were identified during the audit resulting in a material adjustment to increase accounts payable in the amount of \$39,460.

Auditor's Recommendations: Strengthen the accounts payable cutoff procedures and review process to ensure that accurate amounts are reported in the interim and year-end financial statements.

Management's Response: The District has established a process to contact all vendors prior to May 30th to assure all invoices for the fiscal year are received prior to year end. HCH will analyze all invoices prior to closing of the year end books to assure they have been posted. HCH will also notify the audit firm of any invoices for the previous year that did not get posted so that they may process an adjustment to year end to reflect the correct year end expenses.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2014

Section I — Financial Statement Findings

2014-002 (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, 2014. 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: The year-end analysis performed for the allowance for doubtful patient accounts receivable was not in compliance with the District's established allowance policy.

Effect: Net patient accounts receivable at June 30, 2014, could have been misstated; however, the errors offset each other resulting in only an immaterial misstatement at year-end.

Auditor's 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 District has implemented its policy regarding the allowance for bad debt, and HCH accounting will utilize that formula to apply the allowance on a monthly basis. In November and May of each year, the HCH accounting staff will conduct a "look back" analysis of the computed allowance and compare it to the actual bad debt write off for that period. If this policy needs to be adjusted, the HCH accounting staff will recommend this to management which will present it to the District's board.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2014

2014-003 — Collateralization — Material Noncompliance

Criteria or Specific Requirement: New Mexico State Statute Section 6-10-17, NMSA 1978, requires the District to collateralize an amount equal to one-half of the balance not covered by the Federal Deposit Insurance Corporation (FDIC) for depository accounts.

Condition: At June 30, 2014, the District had uninsured bank deposits of \$69,308. State law requires that \$34,654 be collateralized. The District did not have collateral in place to meet the State requirement.

Cause: The District did not have collateral over deposits.

Effect: The deposits were not collateralized appropriately, and the District was not in compliance with the cash collateralization requirements.

Auditor Recommendation: Consider either obtaining collateralization for bank deposits in excess of \$250,000 or moving the deposits to multiple banks with less than \$250,000 in each.

Management's Response: US Bank has issued a Letter of Collateralization for the District's operating account. This letter meets the requirements of this finding and resolves the issue.

South Central Colfax County Special Hospital District
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2014

2014-004 — Actual Expenditures Exceeded Budget Expenditures — Material Noncompliance

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 \$3,708,534 and actual expenditures were \$3,953,760 resulting in an overage of \$245,226.

Cause: The District incurred unbudgeted expenses for salaries and wages due to higher than anticipated staffing levels and benefits due to increased insurance cost. The District also incurred excess expenses for supplies due to steadily increasing supply costs.

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

Auditor Recommendation: 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: The District will work with HCH throughout the year to review the year to date expenses and project the expenses for June. A formal review will take place at least three times during the year. If there are extraordinary expenses that result in totals that are going to exceed the budgeted amount for the year, the District will pass an adjusted budget which reflects the correct total expenses for the year at appropriate board meetings, no later than May. This will assure compliance with this State Auditor ruling by assuring that actual expenses do not exceed the budget expenses for the year.

South Central Colfax County Special Hospital District
Current Status Schedule of 2013 Audit Findings
For the Year Ended June 30, 2014

Prior-Year Number	Description	Current Status
FS 2011-2	Patient Accounts Receivable Allowances	Unresolved (2014-002)
FS 2011-3	Account Reconciliations	Resolved
SA 2011-1	Capital Assets	Resolved
SA 2013-1	Requirements for Contracting and Conducting Audits of Agencies	Resolved
SA 2012-2	Payroll Supporting Documentation	Resolved

South Central Colfax County Special Hospital District
Corrective Action Plan
June 30, 2014

Audit Finding	Responsible Party	Corrective Action to be Taken	Target Date
2014-001	HCH CFO or District Administrator	See Management's response 2014-001	May 1, 2014
2014-002	HCH CFO or District Administrator	See Management's response 2014-002	August 30, 2014
2014-003	HCH CFO	See Management's response 2014-003	September 10, 2014
2014-004	HCH CFO or District Administrator	See Management's response 2014-004	September 30, 2014

South Central Colfax County Special Hospital District
Other Disclosures
For the Year Ended June 30, 2014

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 25, 2014, with the following attending:

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

Holy Cross Hospital
Dayna Duran, Accounting Manager

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

A presentation was made to a closed session of the board of trustees on September 29, 2014, with the following attending:

South Central Colfax County Special Hospital District
Marian Vigil, Madame Chair
Nate Lay, Trustee
Bruce Jassman, Trustee
Bill Norris, District Administrator
Sandra Salazar, Board Support
Kaycee Sandoval, Human Resources

Holy Cross Hospital
Steve Rozenboom, Chief Financial Officer
Dayna Duran, Accounting Manager
Naomi Grant, 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.