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

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*Financial Statements,  
Supplementary Information, and  
Independent Auditor's Reports  
June 30, 2015 and 2014*

**REDW**<sup>LLC</sup>

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, 2015**

**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. Tim Keller, 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, 2015 and 2014, 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 schedules of revenues, expenses, and changes in net position—budget and actual as of and for the years ended June 30, 2015 and 2014, and the schedules 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, 2015 and 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 as of and for the years ended June 30, 2015 and 2014, 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, as listed in the table of contents, 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, schedules of revenues, expenses, and changes in net position—budget and actual, and the schedules of changes in fiduciary assets and liabilities—agency fund, that collectively comprise the District's financial statements as a whole. The accompanying schedule of individual deposit accounts and pledged collateral and the schedule of vendor information, as listed in the table of contents, is presented for purposes of additional analysis, 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 September 28, 2015, 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* in considering the District’s internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico  
September 28, 2015

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, 2015 and 2014**

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, 2015 and 2014. 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**

	<b>2015</b>	2014	2013
Current assets	<b>\$ 1,331,579</b>	\$ 943,563	\$ 919,515
Noncurrent assets	<b><u>929,717</u></b>	<u>1,000,744</u>	<u>951,356</u>
Total assets	<b><u>\$ 2,261,296</u></b>	<u>\$ 1,944,307</u>	<u>\$ 1,870,871</u>
Current liabilities	<b><u>\$ 381,387</u></b>	<u>\$ 365,026</u>	<u>\$ 535,739</u>
Net position			
Net investment in capital assets	<b>929,717</b>	1,000,744	951,356
Unrestricted	<b><u>950,192</u></b>	<u>578,537</u>	<u>383,776</u>
Total net position	<b><u>1,879,909</u></b>	<u>1,579,281</u>	<u>1,335,132</u>
Total liabilities and net position	<b><u>\$ 2,261,296</u></b>	<u>\$ 1,944,307</u>	<u>\$ 1,870,871</u>



**South Central Colfax County Special Hospital District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2015 and 2014**

**2015**

The District's total assets increased by approximately \$317,000 in 2015 compared to 2014. This increase in total assets was due primarily to the following:

- Cash and cash equivalents increased by approximately \$230,000 due to the timing of the ad valorem tax payments near year-end and reduced operating expenses.
- Patient accounts receivable increased by approximately \$111,000 due to higher Medicaid-pending residents at the Long-term Care facility.

The above changes were offset as follows:

- Capital assets decreased by approximately \$71,000 due to depreciation in excess of current-year additions.

The District's total liabilities increased approximately \$16,000 in 2015 compared to 2014, due primarily to an increase in accrued employee health insurance benefits.

**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.

**South Central Colfax County Special Hospital District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2015 and 2014**

**CONDENSED STATEMENTS OF CHANGES IN NET POSITION**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total operating revenue	\$ <b>2,049,857</b>	\$ 1,979,424	\$ 2,057,990
Total operating expenses	<u><b>3,874,021</b></u>	<u>3,953,760</u>	<u>3,621,151</u>
Operating loss	<b>(1,824,164)</b>	(1,974,336)	(1,563,161)
Total nonoperating revenue	<u><b>2,124,792</b></u>	<u>2,218,485</u>	<u>2,127,752</u>
Change in net position	<b>300,628</b>	244,149	564,591
Net position, beginning of year	<u><b>1,579,281</b></u>	<u>1,335,132</u>	<u>770,541</u>
Net position, end of year	<u><b>\$ 1,879,909</b></u>	<u>\$ 1,579,281</u>	<u>\$ 1,335,132</u>

**2015**

Operating revenues increased by approximately \$70,000 in 2015 compared to 2014, primarily due to a decrease in the contractual discounts and allowances and patient account write-offs.

Nonoperating revenues (expenses) decreased by approximately \$94,000 in 2015 compared to 2014, primarily due to a decrease in capital outlay funding from the State of New Mexico.

Operating expenses decreased by approximately \$80,000 in 2015 compared to 2014, primarily due to a decrease in salaries, wages, and employee benefits and supplies expenses, which was as a result from lower staffing levels and a lower average census.

As the District completed the fiscal year, net position increased by approximately \$301,000 from \$1,579,000 at June 30, 2014, to \$1,880,000 at June 30, 2015.

**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 average 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.

**South Central Colfax County Special Hospital District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2015 and 2014**

**Highlights of 2015 Performance vs. Fiscal Year Budget**

- Net patient service revenue was under budget by approximately \$174,000 due to lower than anticipated census and decreased patient services performed at the clinics.
- Salaries, wages, and employee benefits expenses were under budget by approximately \$260,000 due to lower than expected staffing levels.
- Supplies expense was over budget by approximately \$86,000 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 \$343,000 due to the conservative method that management uses to budget for property taxes assessed and collected by the County.
- Grants and other income was under budget by approximately \$95,000 due to the District not receiving anticipated capital outlay funding from the State of New Mexico.

**Capital Assets**

At the end of fiscal year 2015, the District had approximately \$930,000 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 \$71,000 from the prior year, due to current year depreciation in excess of capital additions. For fiscal year 2014, the increase of approximately \$49,000 from 2013 was due to capital additions in excess of depreciation. Refer to the notes to the financial statements for further information about capital assets.

**Economic Factors and 2016's Budget and Rates**

Key factors affecting 2016'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 \$73,000 for the two clinics.
- The Springer facility received a \$5 increase to \$160 to their approved Medicaid Low Nursing Facility (LNF) care rate in August 2015 that is retroactively effective beginning July 1, 2014. The facility received an additional increase to \$167 effective July 1, 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 2016.
- Management expects an increase in total net position from 2015 to 2016, slightly above break-even.

**South Central Colfax County Special Hospital District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2015 and 2014**

**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,**

	2015	2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 664,317	\$ 434,432
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$137,365 in 2015 and \$76,296 in 2014	446,278	335,157
Ad valorem taxes receivable	66,769	59,016
Prepaid expenses	65,254	28,712
Supplies inventory	88,961	86,246
Total current assets	1,331,579	943,563
Capital assets, net	929,717	1,000,744
Total assets	\$ 2,261,296	\$ 1,944,307
 <b>Liabilities and Net Position</b>		
Current liabilities		
Due to management company	\$ 631	\$ 4,112
Accounts payable	133,114	132,372
Accrued payroll and related benefits	103,868	78,247
Accrued compensated absences	94,554	101,075
Other accrued liabilities	49,220	49,220
Total current liabilities	381,387	365,026
Net position		
Net investment in capital assets	929,717	1,000,744
Unrestricted	950,192	578,537
Total net position	1,879,909	1,579,281
Total liabilities and net position	\$ 2,261,296	\$ 1,944,307

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,**

	2015	2014
<b>Operating Revenue</b>		
Net patient service revenue	<u>\$ 2,049,857</u>	<u>\$ 1,979,424</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	2,257,753	2,340,604
Purchased services and other	963,694	935,423
Supplies	426,619	473,091
Depreciation	111,275	111,779
Insurance	<u>114,680</u>	<u>92,863</u>
Total operating expenses	<u>3,874,021</u>	<u>3,953,760</u>
Operating loss	<u>(1,824,164)</u>	<u>(1,974,336)</u>
<b>Nonoperating Revenue (Expense)</b>		
Ad valorem taxes	2,023,225	2,063,796
Grants and other	105,127	154,689
Interest expense	<u>(3,560)</u>	<u>-</u>
Total nonoperating revenue	<u>2,124,792</u>	<u>2,218,485</u>
Change in net position	300,628	244,149
Net position, beginning of year	<u>1,579,281</u>	<u>1,335,132</u>
<b>Net position, end of year</b>	<u><u>\$ 1,879,909</u></u>	<u><u>\$ 1,579,281</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,**

	2015	2014
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 1,938,736	\$ 1,988,108
Cash paid to employees	(2,238,653)	(2,309,472)
Cash paid to suppliers	(1,546,989)	(1,690,562)
Net cash used by operating activities	(1,846,906)	(2,011,926)
<b>Cash flows from noncapital financing activities</b>		
Ad valorem taxes	2,015,472	2,361,290
Grants and other	105,127	165,329
Interest paid on borrowings	(3,560)	-
Net cash provided by noncapital financing activities	2,117,039	2,526,619
<b>Cash flows from capital and related financing activities</b>		
Capital asset purchases	(40,248)	(161,167)
Net cash used by capital and related financing activities	(40,248)	(161,167)
Net change in cash and cash equivalents	229,885	353,526
Cash and cash equivalents, beginning of year	434,432	80,906
<b>Cash and cash equivalents, end of year</b>	<b>\$ 664,317</b>	<b>\$ 434,432</b>
<b>Reconciliation of operating loss to net cash used by operating activities</b>		
Operating loss	\$ (1,824,164)	\$ (1,974,336)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	111,275	111,779
Change in allowance for estimated uncollectible accounts	61,069	31,092
Changes in assets and liabilities		
Patient accounts receivable, gross	(172,190)	(22,408)
Prepaid expenses	(36,542)	21,761
Supplies inventory	(2,715)	(9,101)
Due to management company	(3,481)	(285,713)
Accounts payable	742	83,868
Accrued payroll and related benefits	25,621	13,349
Accrued compensated absences	(6,521)	4,574
Other accrued liabilities	-	13,209
Net cash used by operating activities	<b>\$ (1,846,906)</b>	<b>\$ (2,011,926)</b>

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>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets		
Cash	<u>\$ 7,158</u>	<u>\$ 9,130</u>
<b>Liabilities</b>		
Current liabilities		
Funds held for patients	<u>\$ 7,158</u>	<u>\$ 9,130</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, 2015 and 2014**

**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 and collected 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.

In October 2014, the District incorporated the Colfax Healthcare Foundation (the “Foundation”), a not-for-profit subsidiary of the District. The foundation received its approved 501(c)3 tax filing status from the Internal Revenue Service in July 2015. The Foundation’s sole purpose will be to solicit donations and contributions on behalf of the District while the District will be the sole beneficiary of such fundraising activities. As of June 30, 2015, there has been no financial activity with respect to the Foundation; therefore, their financial statements have not been consolidated into that of the District’s.

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 \$120,000 and \$122,000 in 2015 and 2014, 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 \$631 and \$4,100 at June 30, 2015 and 2014, 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.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

Proprietary Fund

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 resources 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 statements of net position.

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 District had no restricted net position at June 30, 2015 or 2014.

Agency Fund

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

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2015:

- ◆ GASB Statement No. 72, *Fair Value Measurement and Application*
- ◆ GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- ◆ GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- ◆ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
- ◆ GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- ◆ GASB Statement No. 77, *Tax Abatement Disclosures*

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

The District will implement the new GASB pronouncements listed above, if they are deemed applicable, no later than the required effective date. The District is still evaluating whether implementation of any of these GASB pronouncements will have a significant impact on the reported financial position and results of operations of the District.

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. Significant estimates contained in the District's financial statements include the allowance for doubtful accounts, contractual allowances, third-party payor settlements, and depreciation and amortization.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments, 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, 2015 and 2014.

Accounts Receivable and Allowances

Accounts receivable consist primarily of amounts due from Medicaid, Medicare, 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.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

Capital Assets and Depreciation

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

Accrued Liabilities

Accrued expenses consist of wages and benefits payable to employees and certain professional fees payable as of June 30, 2015 and 2014.

Accrued 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

Patient services rendered at the long-term care facility are rendered primarily to Medicaid program beneficiaries and are reimbursed based on per diem rates. For the year ended June 30, 2014, there was no difference between the estimated net realizable amounts and established billing rates. In August 2015, there was an increase in the approved rate of \$5 per patient day over the established billing rate, which is applicable retroactively back to July 1, 2014. As a result, a \$59,943 receivable was recorded at June 30, 2015, and is included in net patient accounts receivable on the statements of net position.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

For the clinics, 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 GASB 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 Revenue

Grant revenue consists of amounts received from the State of New Mexico. Such receipts are considered voluntary nonexchange transactions in accordance with GASB Statement No. 33, which 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 2015 and 2014.

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

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, 2015, total actual operating expenses did not exceed budgeted operating expenses. For the year ended June 30, 2014, total actual operating expenses exceeded budgeted operating expenses.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

Income Taxes

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

Subsequent Events

Subsequent events through September 28, 2015, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2015, 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, 2015, the District had deposits with a bank balance of \$709,798, including \$7,481 of patient trust funds in the District's agency fund. Of this total bank balance, \$35,649 is subject to custodial credit risk, as this amount was not insured or collateralized. As of June 30, 2014, the District had deposits with a bank balance of \$481,870, of which \$69,308 was subject to custodial credit risk as it was not insured or collateralized. The carrying amount of the District's deposits as of June 30, 2015 and 2014, was \$663,317 and \$433,432, respectively. The District's petty cash fund totaled \$1,000 as of June 30, 2015 and 2014.

**4) Net Patient Service Revenue**

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

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

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

	<b>2015</b>	2014
Gross charges		
Inpatient	<b>\$ 1,709,106</b>	\$ 1,693,380
Outpatient	<b><u>988,675</u></b>	<u>1,079,652</u>
	<b>2,697,781</b>	2,773,032
Less contractual adjustments and provision for uncollectible accounts	<b><u>647,924</u></b>	<u>793,608</u>
Net patient service revenue	<b><u><u>\$ 2,049,857</u></u></b>	<b><u><u>\$ 1,979,424</u></u></b>

**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 future operations. In 2015 and 2014, 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 payers.



**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

**6) Capital Assets**

Capital asset activity of the District for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	114,505	2,748	-	117,253
Total capital assets not being depreciated	<u>156,442</u>	<u>2,748</u>	<u>-</u>	<u>159,190</u>
<i>Capital assets being depreciated</i>				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,603,270	31,218	-	1,634,488
Equipment	449,132	6,282	-	455,414
Total capital assets being depreciated	<u>2,223,949</u>	<u>37,500</u>	<u>-</u>	<u>2,261,449</u>
<i>Less accumulated depreciation for</i>				
Land improvements	74,071	7,838	-	81,909
Buildings and improvements	976,050	60,141	-	1,036,191
Equipment	329,526	43,296	-	372,822
Total accumulated depreciation	<u>1,379,647</u>	<u>111,275</u>	<u>-</u>	<u>1,490,922</u>
Total capital assets being depreciated, net	<u>844,302</u>	<u>(73,775)</u>	<u>-</u>	<u>770,527</u>
Capital assets, net	<u>\$ 1,000,744</u>	<u>\$ (71,027)</u>	<u>\$ -</u>	<u>\$ 929,717</u>

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

	Beginning Balance, as restated	Additions	Deletions	Ending Balance, as restated
<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>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>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>1,379,647</u>
Total capital assets being depreciated, net	<u>904,059</u>	<u>(59,757)</u>	<u>-</u>	<u>844,302</u>
Capital assets, net	<u>\$ 951,356</u>	<u>\$ 49,388</u>	<u>\$ -</u>	<u>\$ 1,000,744</u>

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

**7) Accrued Compensated Absences**

A schedule of changes in the District's accrued compensated absences for June 30, 2015, follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 101,075</u>	<u>\$ 251,977</u>	<u>\$ 258,498</u>	<u>\$ 94,554</u>	<u>\$ 94,554</u>

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>

**8) Contingencies**

*Healthcare Regulatory Environment*—The healthcare industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. The government continues to conduct reviews and investigations of allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the District is in compliance with fraud and abuse as well as other applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

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 for malpractice, workers' compensation and other similar insurance coverage during the period ending June 30, 2015 and 2014, approximated \$115,000 and \$93,000, 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.

*Ad Valorem Taxes*—The current mill levy expires December 31, 2015, and is voted on by general ballot every four years. The current-year ballot is expected to go to the voters in September 2015.

**South Central Colfax County Special Hospital District**  
**Notes to Basic Financial Statements**  
**June 30, 2015 and 2014**

**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:

	<b>2015</b>	2014
Medicaid	<b>64%</b>	33%
Self-pay	<b>17</b>	34
Commercial insurance and other	<b>14</b>	22
Medicare	<b>5</b>	11
	<b>100%</b>	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, 2015, were \$72,185 and \$24,213, respectively. Employee and employer contributions to the plan for the year ended June 30, 2014, were \$64,794 and \$19,338, 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, 2015 and 2014**

**11) Revolving Line of Credit**

In September 2014, the District obtained a \$250,000 revolving line of credit with a financial institution carrying a variable interest rate of 2.00% over the Prime Rate, not to exceed the lesser of 5.50% per annum or the maximum rate allowed by applicable law. As of June 30, 2015, the District had no outstanding balance on the line of credit. The line of credit is not secured by any of the District's assets. The interest rate at June 30, 2015, was 5.25%. At June 30, 2015, the District has reapplied for the line of credit and is awaiting approval.

**12) Future Operations**

The District has experienced operating losses in recent years. Management is confident that the District will continue as a going concern through fiscal year 2016 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 \$160 per patient day, or a 3.7% increase. This increase will be retroactively applied back to July 1, 2014. The facility received an additional increase to \$167 effective July 1, 2015.
- The District anticipates the continued receipt of ad valorem tax revenues from the Colfax County Treasurer's office in fiscal year 2016. The percentage of tax applied is determined by the DFA annually. Although this funding source is expected to continue to be received, the District has budgeted for a potential decrease of \$328,000 as a conservative estimate, representing a 15% reduction of fiscal year 2015 actual. This projection is based on slow collection within DFA and a declining economy in Moreno Valley.
- 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 2016, as the cost of agency staffing is well above typical salary expenses.

**13) Economic Dependency**

The District is significantly dependent on the continued receipt of ad valorem taxes (Note 5), and management believes the voters of Colfax County will continue to support the tax. Significant reductions in this source of funding could negatively impact the ability of the District to continue its existing levels of service.

## 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, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>Operating Revenue</b>				
Net patient service revenue	\$ 2,223,900	\$ 2,223,900	<b>\$ 2,049,857</b>	\$ (174,043)
<b>Operating Expenses</b>				
Salaries, wages and employee benefits	2,518,000	2,518,000	<b>2,257,753</b>	260,247
Purchased services and other	1,013,200	1,013,200	<b>963,694</b>	49,506
Supplies	341,100	341,100	<b>426,619</b>	(85,519)
Depreciation	113,000	113,000	<b>111,275</b>	1,725
Insurance	117,700	117,700	<b>114,680</b>	3,020
Total operating expenses	<u>4,103,000</u>	<u>4,103,000</u>	<b><u>3,874,021</u></b>	<u>228,979</u>
Operating loss	<u>(1,879,100)</u>	<u>(1,879,100)</u>	<b><u>(1,824,164)</u></b>	<u>54,936</u>
<b>Nonoperating Revenue (Expense)</b>				
Ad valorem taxes	1,680,000	1,680,000	<b>2,023,225</b>	343,225
Grants and other	200,400	200,400	<b>105,127</b>	(95,273)
Interest expense	-	-	<b>(3,560)</b>	(3,560)
Total nonoperating revenue, net	<u>1,880,400</u>	<u>1,880,400</u>	<b><u>2,124,792</u></b>	<u>244,392</u>
Change in net position	<u>\$ 1,300</u>	<u>\$ 1,300</u>	<b><u>300,628</u></b>	<u>\$ 299,328</u>
Net position, beginning of year			<b><u>1,579,281</u></b>	
<b>Net position, end of year</b>			<b><u>\$ 1,879,909</u></b>	

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

**Notes to 2015 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,**

	2015	2014
<b>Additions</b>		
Receipts from patients	\$ 98,111	\$ 101,519
<b>Deductions</b>		
Payments made on behalf of patients	<u>100,083</u>	<u>116,205</u>
Change in fiduciary assets and liabilities	(1,972)	(14,686)
Fiduciary assets and liabilities - beginning of year	<u>9,130</u>	<u>23,816</u>
Fiduciary assets and liabilities - end of year	<u>\$ 7,158</u>	<u>\$ 9,130</u>

New Mexico State Auditor's Supplementary Information

**South Central Colfax County Special Hospital District**  
**Schedule of Individual Deposit Accounts and Pledged Collateral**  
**June 30, 2015**

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	\$ -	\$ -	\$ -	\$ -	\$ 265,477	\$ 223,517	
Moreno Valley Depository Bank Account	Noninterest-bearing checking	-	-	272,221	274,874	-	-	
Athena Lockbox Account	Lockbox	-	-	-	-	1,294	1,420	
Cimarron Clinic Operating Account	Noninterest-bearing checking	-	-	13,428	13,464	-	-	
LTC Operating Account (depository)	Interest-bearing checking	<u>149,897</u>	<u>150,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total amount of deposits in bank		149,897	<u>\$ 150,042</u>	285,649	<u>\$ 288,338</u>	266,771	<u>\$ 224,937</u>	
Less FDIC insurance		<u>(149,897)</u>		<u>(250,000)</u>		<u>(250,000)</u>		
Total uninsured public funds		<u>\$ -</u>		<u>\$ 35,649</u>		<u>\$ 16,771</u>		
Collateral Requirement - 50% (Section 6-10-17)				\$ 17,825		\$ 8,386		
Total Pledged Collateral				<u>-</u>		<u>238,473</u>		
Amount (under)/over collateralized for 50% requirement				<u>\$ (17,825)</u>		<u>\$ 230,087</u>		
Total book balance of deposits								\$ 663,317
Add cash on hand	Petty Cash							<u>1,000</u>
Total cash and cash equivalents								<u>\$ 664,317</u>

**Pledged Collateral**

Type of Security	CUSIP Number	Maturity Date	Fair Value
FHLMC GOLD REMIC 4193 AP	3137B1H21	4/15/2043	143,021
FHLMC GOLD REMIC 4212 QF	3137B2SK7	6/15/2043	<u>95,452</u>
			<u>\$ 238,473</u>

**South Central Colfax County Special Hospital District**  
**Schedule of Vendor Information**  
**June 30, 2015**

RFB/ RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
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**Notes to 2015 Schedule of Vendor Information**

All expenditures to vendors exceeding \$60,000, including Gross Receipts tax, during the fiscal year were related to multi-year contracts procured during previous fiscal years. Additionally, the District is exempt from the State Procurement Code under the Hospital and Healthcare Exemption outlined in Section 13-1-98.2 of the Code. Therefore, no vendor contracts are reported for the year ended June 30, 2015.

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. Tim Keller, 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, 2015, 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, 2015, and the schedule of changes in fiduciary assets and liabilities—agency fund, presented as supplementary information, and have issued our report thereon dated September 28, 2015.

**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 a deficiency in internal controls, described in the accompanying schedule of findings and responses as item 2014-002 that we consider 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 which are described in the accompanying schedule of findings and responses as items 2014-003 and 2015-001.

### ***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 responses. 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  
September 28, 2015

**South Central Colfax County Special Hospital District**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2015**

**Section I — Financial Statement Findings**

**2014-002 (FS 2011-2) — Patient Accounts Receivable Allowances — Significant Deficiency**

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*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 make progress in resolving this finding in that they did apply their documented methodology correctly at June 30, 2015. However, the District's documented methodology for estimating the allowances for doubtful patient accounts receivable at June 30, 2015, did not consider an analysis of specific payer categories, allowances for aging categories under 90 days, or contractual discounts and allowances. In addition, District management had not performed a detailed analysis of the allowance estimate since fiscal year 2011.

*Cause:* The year-end analysis performed for the allowance for doubtful patient accounts receivable was in compliance with the District's established allowance policy. However, it was not updated during fiscal year 2015 to reflect historical collections, changes in payor mix, the introduction of Centennial Care and the utilization of Managed Care Organizations (MCO) which have resulted in collection delays, and other important factors.

*Effect:* An audit adjustment of \$35,000, which was based on historical collections, was required to increase net patient accounts receivable at June 30, 2015.

*Auditor's Recommendations:* The District's methodology should be 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, changes in the healthcare industry and the payer mix, 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 the formula to apply the allowance was done on a monthly basis in fiscal year 2015. For fiscal year 2016, the District Administrator will be responsible for ensuring the District conducts a "look back" analysis at least two times during the year to compute the allowance and compare it to the actual bad debt write off for that period. If the policy needs to be adjusted, the District Administrator will ensure it is updated at that time and begin applying the new allowance policy.

**South Central Colfax County Special Hospital District**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2015**

*The following are reported in accordance with the New Mexico State Audit Rule NMAC 2.2.2, Requirements for Contracting and Conducting Audits of Agencies.*

**2014-003 — Collateralization – Other noncompliance**

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*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:* The District did obtain collateralization on one of their bank accounts in 2015. However, at June 30, 2015, the District still had uninsured bank deposits of \$35,649. State law requires that \$17,825 of this uninsured amount be collateralized. The District did not have collateral in place to meet the State requirement.

*Cause:* The District did not have collateral over deposits with one of their financial institutions.

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

*Auditor Recommendation:* The District should arrange for collateral for bank deposits in excess of \$250,000. Alternatively, the District could maintain deposits with multiple banks with less than \$250,000 in each.

*Management's Response:* The District Administrator will work with International Bank to get the required collateralization in place.



**South Central Colfax County Special Hospital District**  
**Schedule of Findings and Responses — continued**  
**For the Year Ended June 30, 2015**

**2015-001 — Requirements for Contracting and Conducting Audits of Agencies – Other noncompliance**

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*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<sup>th</sup>.

*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 April 30, 2015.

*Cause:* The District failed to submit the IPA Recommendation Form to the State Auditor by the required deadline of April 15, 2015.

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

*Auditor Recommendation:* Ensure that the IPA Recommendation Form is submitted to the State Auditor by the April 15<sup>th</sup> deadline annually.

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

**South Central Colfax County Special Hospital District**  
**Current Status Schedule of 2014 Audit Findings**  
**For the Year Ended June 30, 2015**

<b>Prior-Year Number</b>	<b>Description</b>	<b>Current Status</b>
2014-001	Accounts Payable, Unrecorded Liabilities	Resolved
2014-002	Patient Accounts Receivable Allowance	Unresolved
2014-003	Collateralization	Unresolved
2014-004	Actual Expenditures Exceeded Budget Expenditures	Resolved

**South Central Colfax County Special Hospital District**  
**Corrective Action Plan**  
**June 30, 2015**

<b>Audit Finding</b>	<b>Responsible Party</b>	<b>Corrective Action to be Taken</b>	<b>Target Date</b>
2014-002	District Administrator	See Management's response 2014-002	June 30, 2016
2014-003	District Administrator	See Management's response 2014-003	June 30, 2016
2015-001	District Administrator	See Management's response 2015-001	April 15, 2016

**South Central Colfax County Special Hospital District**  
**Other Disclosures**  
**For the Year Ended June 30, 2015**

Exit Conference and Board of Trustees Presentation

An exit conference was held on September 17, 2015, with the following attending:

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

Holy Cross Hospital  
Steve Rozenboom, Chief Financial Officer  
Dayna Duran, Senior Accounting Manager  
Tracy Brewer, Accountant

REDW<sub>LLC</sub>  
Halie Garcia, CPA, Senior Manager  
Jonathan Rothweiler, Senior Associate

A presentation was made to a closed session of the board of trustees on September 28, 2015, with the following attending:

South Central Colfax County Special Hospital District  
Marian Vigil, Madame Chair  
Steve Briggs, Vice Chair  
Fred Martinez, Secretary/Treasurer  
Nate Lay, Board Member  
Bruce Jassman, Board Member  
Bill Norris, District Administrator  
Sandra Salazar, Secretary of the Board  
Kaycee Sandoval, Human Resources & Operations

Holy Cross Hospital  
Steve Rozenboom, Chief Financial Officer  
Dayna Duran, Senior Accounting Manager  
Tracy Brewer, Accountant

REDW<sub>LLC</sub>  
Jonathan Rothweiler, Senior Associate

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.