

*Clarity from Complexity*



FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

June 30, 2016

# South Central Colfax County Special Hospital District

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South Central Colfax County Special Hospital District

Official Roster

June 30, 2016

Board of Trustees

Marian Vigil  
Steve Briggs  
Frederick Martinez  
Nate Lay  
Bruce Jassman

Madame Chair  
Vice Chairperson  
Secretary/Treasurer  
Trustee  
Trustee

Principal Employees

Bill Norris  
Kaycee Sandoval

District Administrator  
Human Resources  
Director & Business  
Operations Compliance  
Officer

## Independent Auditor's Report

To the Board of Trustees and Management  
South Central Colfax County Special Hospital District  
and  
Mr. Tim Keller  
New Mexico State Auditor

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County Special Hospital District ("the District") as of and for the year ended June 30, 2016, 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 year ended June 30, 2016, 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 responsibility 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

To the Board of Trustees and Management  
South Central Colfax County Special Hospital District  
and  
Mr. Tim Keller  
New Mexico State Auditor

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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, 2016, 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 budgetary comparisons referred to above present fairly, in all material respects, the budget to actual comparison of the District as of and for the year ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

The financial statements of the District as of and for the year ended June 30, 2015 were audited by other auditors whose report dated September 28, 2015 expressed an unmodified opinion on those statements.

### *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.

To the Board of Trustees  
South Central Colfax County Special Hospital District  
and  
Mr. Tim Keller  
New Mexico State Auditor

*Other Information*

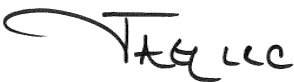
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements and the budgetary comparisons. The accompanying Schedule of Individual Deposit Accounts and Pledged Collateral and the Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund, as required by 2.2.2 NMAC are presented for purposes of additional analysis, and are not required parts of the basic financial statements.

The accompanying Schedule of Individual Deposit Accounts and Pledged Collateral and the Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund are the responsibility of management and were derived from and relates 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.

The Schedule of Vendor Information for Purchases Exceeding \$60,000 (Excluding GRT) required by 2.2.2 NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016 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.



Jaramillo Accounting Group LLC (JAG)  
Albuquerque, New Mexico  
October 14, 2016

**Required Supplementary Information  
Management's Discussion and Analysis**

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

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, 2016, 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**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating revenue	\$ 2,066,020	\$ 2,049,857	\$ 1,979,424
Total operating expenses	<u>4,245,383</u>	<u>3,874,021</u>	<u>3,953,760</u>
Operating loss	(2,179,363)	(1,824,164)	(1,974,336)
Total nonoperating revenue	<u>2,129,749</u>	<u>2,124,792</u>	<u>2,218,485</u>
Change in net position	(49,614)	300,628	244,149
Net position, beginning of year	<u>1,879,909</u>	<u>1,579,281</u>	<u>1,335,132</u>
Net position, end of year	<u>\$ 1,830,295</u>	<u>\$ 1,879,909</u>	<u>\$ 1,579,281</u>



**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**Highlight of changes in Statement of Net Position: 2016 vs. 2015**

The District's total assets decreased by approximately \$29,000 in 2016 compared to 2015. This decrease in total assets was due primarily to the following:

- Patient Receivables decreased by approximately \$48,000 due to write-offs during the current year. In addition, the 2015 receivable was higher due to higher Medicaid – pending residents at the Long-term Care facility at June 30, 2015.
- Ad valorem taxes receivable dropped by approximately \$30,000 as a result of the timing of mill levy receipts from the County Treasurer's office.
- Prepaid expenses decreased by approximately \$40,000 as a result of timing of payments on service invoices.
- Inventory decreased by approximately \$14,000 as a result of timing of purchases of inventory items.

The above was offset by the following:

- Cash and cash equivalents increased by approximately \$102,000 due to timing of payments on operating expenses and the timing of collections on the mill levy receipts from the County Treasurer's office.
- Total liabilities increased approximately \$15,000 in 2016 as compared to 2015, due to an increase in accounts payable due to timing of vendor payments at year end 2015

**Highlight of changes in Statement of Net Position: 2015 vs. 2014**

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.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

- 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.

**CONDENSED STATEMENTS OF CHANGES IN NET POSITION**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating revenue	\$ 2,066,020	\$ 2,049,857	\$ 1,979,424
Total operating expenses	<u>4,245,383</u>	<u>3,874,021</u>	<u>3,953,760</u>
Operating loss	(2,179,363)	(1,824,164)	(1,974,336)
Total nonoperating revenue	<u>2,129,749</u>	<u>2,124,792</u>	<u>2,218,485</u>
Change in net position	(49,614)	300,628	244,149
Net position, beginning of year	<u>1,879,909</u>	<u>1,579,281</u>	<u>1,335,132</u>
Net position, end of year	<u>\$ 1,830,295</u>	<u>\$ 1,879,909</u>	<u>\$ 1,579,281</u>

**Highlight of Changes in Statement of Changes in Net Position 2016 vs. 2015**

- Operating revenues increased by approximately \$16,000 in 2016 compared to 2015, primarily due rate increases offset by contractual allowances and write offs.
- Nonoperating revenues (expenses) increased by approximately \$5,000 in 2016 compared to 2015, primarily due to funds received from the Ad valorem taxes from the County Treasurer's office for the mill levy.
- Operating expenses increased by approximately \$371,000 in 2016 compared to 2015, primarily due to an increase in salaries, wages and employee benefits and purchased services, which was a result from higher staffing levels and the result of the District's change in contract services with Taos Professional Services. In 2016, the District's contract with Taos Professional Services was terminated and the District had to contract directly for a variety of services previously included in the contract including accounting and information technology.
- As the District completed the fiscal year, net position decreased by approximately \$50,000 from \$1,879,909 at June 30, 2015 to \$1,830,294 at June 30, 2016.

**Highlight of changes in Statement of Changes in Net Position: 2015 vs. 2014**

- 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.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

- 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.

**Highlights of 2016 Performance vs. Fiscal Year Budget**

- Net patient service revenue was over budget by approximately \$234,000 due to the increase in the Medicaid Low Nursing Facility (LNF) care rate in August 2015.
- Purchased services and other were over budget by approximately \$305,000 as a result of end of the contract with Taos Professional Services. The District had to obtain new contracts in 2016 for various services including accounting and information technology. Costs were higher than expected due to the transition costs.
- Insurance is over budget by approximately \$43,000 due to an increase in Workers Compensation Insurance due to claims incurred.
- Ad valorem taxes (mill levy) income was over budget by approximately \$30,000 due to the conservative method that management uses to budget for property taxes and assessed and collected by the County.

**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.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

- 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 2016, the District had approximately \$925,000 invested in capital assets, net of accumulated depreciation, including land and land improvements, building and building improvements, and equipment. The amount represents a net decrease of approximately \$5,000 from the prior year, due to current year depreciation in excess of capital additions. For fiscal year 2015, the decrease of approximately \$71,000 was due to depreciation in excess of capital additions. Refer to the notes to the financial statements for further information about capital assets.

### **Economic Factors and 2017's Budget and Rates**

Key factors affecting 2017's revenues and expense 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 lab budget is set based on the prior year's actual revenues and expenses as levels are expected to remain consistent in fiscal year 2017.
- Management expects an increase in total net position from 2016 to 2017, slightly above break-even.

### **Contacting the District's Financial Management**

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

South Central Colfax County Special Hospital District  
Ms. Kaycee Sandoval  
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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 767,282	\$ 664,317
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$32,303 in 2016 and \$137,365 in 2015	398,398	446,278
Ad valorem taxes receivable	36,764	66,769
Prepaid expenses	24,998	65,254
Supplies Inventory	74,295	88,961
<b>Total current assets</b>	<u>1,301,737</u>	<u>1,331,579</u>
Capital assets, net	925,201	929,717
<b>Total assets</b>	<u>2,226,938</u>	<u>2,261,296</u>
 <b>Liabilities</b>		
Current Liabilities		
Due to management company	-	631
Accounts payable	167,931	133,114
Accrued payroll and related benefits	77,079	103,868
Accrued compensated absences	100,186	94,554
Other accrued liabilities	51,447	49,220
<b>Total current liabilities</b>	<u>396,643</u>	<u>381,387</u>
 <b>Net Position</b>		
Net investment in capital assets	925,201	929,717
Unrestricted	905,094	950,192
<b>Total net position</b>	<u>1,830,295</u>	<u>1,879,909</u>
 <b>TOTAL LIABILITES AND NET POSITION</b>	<u>\$ 2,226,938</u>	<u>\$ 2,261,296</u>

See Notes to Financial Statements.

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue	\$ 2,066,020	\$ 2,049,857
Operating Expenses		
Salaries, wages and employee benefits	2,541,919	2,257,753
Purchased services and other	1,072,933	963,694
Supplies	382,175	426,619
Depreciation	92,821	111,275
Insurance	155,535	114,680
Total operating expenses	4,245,383	3,874,021
Operating loss	(2,179,363)	(1,824,164)
Nonoperating revenues (expenses)		
Ad valorem taxes	2,027,411	2,023,225
Grants and other	104,854	105,127
Interest expense	(2,516)	(3,560)
Total non-operating revenues (expenses)	2,129,749	2,124,792
Change in net position	(49,614)	300,628
Net position, beginning of year	1,879,909	1,579,281
Net position, end of year	\$ 1,830,295	\$ 1,879,909

*See Notes to Financial Statements.*

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2016 and 2015

	2016	2015
<b>Cash Flows From Operating Activities</b>		
Cash received from patients and third-parties payors	\$ 1,918,646	\$ 1,938,736
Cash paid to employees	(2,276,485)	(2,238,653)
Cash paid to supplies	(1,610,643)	(1,546,989)
Net cash used by operating activities	(1,968,482)	(1,846,906)
 <b>Cash Flows From Noncapital Financing Activities</b>		
Ad valorem taxes	2,057,416	2,015,472
Grants and other	104,854	105,127
Interest paid on borrowing	(2,516)	(3,560)
Net cash provided by noncapital financing activities	2,159,754	2,117,039
 <b>Cash Flows From Capital and Related Financing Activities</b>		
Capital asset purchases	(88,307)	(40,248)
Net cash used by capital and related financing activities	(88,307)	(40,248)
 <b>Net change in cash and cash equivalents</b>	102,965	229,885
Cash and cash equivalents, beginning of year	664,317	434,432
Cash and cash equivalents, end of year	\$ 767,282	\$ 664,317
 <b>RECONCILIATION OF OPERATING REVENUES (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (2,179,363)	\$ (1,824,164)
Adjustments to reconcile operating loss to net cash provided/used by operating activities		
Depreciation and amortization	92,823	111,275
Change in allowance for estimated uncollectible accounts	(105,062)	61,069
Change in assets and liabilities		
Patient accounts receivable, gross	152,942	(172,190)
Prepaid expenses	40,256	(36,542)
Supplies inventory	14,666	(2,715)
Due to management company	(631)	(3,481)
Account payable	34,817	742
Accrued payroll and related benefits	(26,789)	25,621
Accrued compensated absences	5,632	(6,521)
Other accrued liabilities	2,227	-
Net cash used by operating activities	\$ (1,968,482)	\$ (1,846,906)

See Notes to Financial Statements.



STATE OF NEW MEXICO  
SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 5,412	\$ 7,158
	<u>5,412</u>	<u>7,158</u>
<b>LIABILITIES</b>		
Funds held for patients	\$ 5,412	\$ 7,158
	<u>5,412</u>	<u>7,158</u>

*See Notes to Financial Statements.*

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

**NOTE 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, 2016, there has been no material financial activity with respect to the Foundation; therefore, their financial statements have not been consolidated into that of the District's.

The District had 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 beginning January 1, 2011 and ending September 30, 2016. Management fees approximated \$51,400 and \$120,000 in 2016 and 2015, 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 \$0 and \$600 at June 30, 2016 and 2015, 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. The District now contracts with a CPA firm that provides accounting services.

**NOTE 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.

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

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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, 2016 or 2015.

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.

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, 2016 and 2015.

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

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

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 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. 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, 2016 and 2015.

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 six months of service, accrued PTO is payable to employees upon termination at 100% of the accrued balance up to 350 hours. 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. In August 2015, there was an increase in the approved rate of \$5 per patient day over the established billing rate, which was effective July 1, 2014. This resulted in a \$59,943 receivable 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, 2016 AND 2015

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 2016 and 2015. 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, 2016, total actual operating expenses exceeded budgeted operating expenses. For the year ended June 30, 2015, total actual operating expenses did not exceed budgeted operating expenses.

Income Taxes

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

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015

NOTE 3. CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that 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, 2016, the District had deposits with a bank balance of \$772,067, including \$6,112 of patient trust funds in the District's agency fund. Of this total bank balance, \$88,006 is subject to custodial credit risk, as this amount was not insured or collateralized. As of June 30, 2015, the District had deposits with a bank balance of \$709,798, of which \$35,649 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, 2016 and 2015, was \$771,694 and \$663,317, respectively. The District's petty cash fund totaled \$1,000 as of June 30, 2016 and 2015.

NOTE 4. NET PATIENT SERVICE REVENUE

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

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

	<u>2016</u>	<u>2015</u>
Gross Charges		
Inpatient	\$ 1,766,960	\$ 1,709,106
Outpatient	<u>1,094,002</u>	<u>988,675</u>
	2,860,962	2,697,781
Contractual adjustments and provision for uncollectible accounts	<u>(794,942)</u>	<u>(647,924)</u>
Net patient service revenue	<u>\$ 2,066,020</u>	<u>\$ 2,049,857</u>

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016 AND 2015

NOTE 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. In 2016 and 2015, the County assessed a mill levy of 4.25% per every \$1,000 of commercial and residential property values within the County’s jurisdiction. Property taxes attach an enforceable lien on property as of January 1. Tax notices are sent to property owners by November 1st of each year to be paid in whole or in two installments by November 10<sup>th</sup> and April 10<sup>th</sup> of each year. Colfax County collects taxes for the District and distributes them once per month.

NOTE 6. CAPITAL ASSETS

Capital asset activity of the District for the year ended June 30, 2016, was as follows:

	Beginning <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balances</u>
<i>Capital assets not being depreciated</i>				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	<u>117,253</u>	-	-	<u>117,253</u>
Total capital assets not being depreciated	<u>159,190</u>	-	-	<u>159,190</u>
<i>Capital assets being depreciated</i>				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,634,488	23,551	-	1,658,039
Equipment	<u>455,414</u>	<u>64,756</u>	-	<u>520,170</u>
Total capital assets being depreciated	2,261,449	88,307	-	2,349,756
<i>Less accumulated depreciation for</i>				
Land Improvements	81,909	7,741	-	89,650
Building and Improvements	1,036,191	51,579	-	1,087,770
Equipment	<u>372,822</u>	<u>33,503</u>	-	<u>406,325</u>
Total accumulated depreciation	<u>1,490,922</u>	<u>92,823</u>	-	<u>1,583,745</u>
Total capital assets being depreciated, net	<u>770,527</u>	<u>(4,516)</u>	-	<u>766,011</u>
Capital assets, net	<u>\$ 929,717</u>	<u>\$ (4,516)</u>	<u>\$ -</u>	<u>\$ 925,201</u>

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated</i>				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	<u>114,505</u>	<u>2,748</u>	<u>-</u>	<u>117,253</u>
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	<u>449,132</u>	<u>6,282</u>	<u>-</u>	<u>455,414</u>
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
Building and Improvements	976,050	60,141	-	1,036,191
Equipment	<u>329,526</u>	<u>43,296</u>	<u>-</u>	<u>372,822</u>
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>

NOTE 7. ACCRUED COMPENSATED ABSENCES

A schedule of changes in the District's accrued compensated absences for the year ended June 30, 2016, follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
\$ 94,554	\$ 161,182	\$ 155,550	\$ 100,186	\$ 100,186

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

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



SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

NOTE 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, governmental healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. The government continues to conduct reviews and investigations of allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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

The Health Insurance Portability and Accountability Act (HIPAA) was enacted 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 Darwin National Assurance Company through August 4, 2017. The District is covered through CNA Insurance for general liability and malpractice through December 31, 2016. Workers' compensation is covered through the New Mexico Hospital Workers' Compensation group through December 31, 2016. 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 years ending June 30, 2016 and 2015, approximated \$156,000 and \$115,000, respectively. Settled claims have not exceeded insurance coverage in any of the three preceding years.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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, 2019, and is voted on by general ballot every four years.

**NOTE 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 collectability of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance for doubtful accounts will change by a material amount in the near term.

The District recognizes that revenue and receivables from government agencies are significant to its operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

	<u>2016</u>	<u>2015</u>
Medicaid	72%	64%
Self-pay	12%	17%
Commercial insurance and other	12%	14%
Medicare	<u>4%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

**NOTE 10. DEFINED CONTRIBUTION RETIREMENT PLAN**

From July 1, 2015 through December 31, 2015, the District was part of a 403(b) plan administered by Holy Cross Hospital Services. All employees were eligible to participate in the plan after a one year probationary period. The plan allowed employees to defer a portion of their annual compensation pursuant to Section 403(b) of the Internal Revenue Code. Employer contributions to the plan were discretionary and were fully vested once the employee was eligible to participate in the 403(b) plan.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

Beginning January 1, 2015, the District adopted a 457 plan. All employees are eligible to participate in the plan after six months of continuous employment. The plan allows employees to defer a portion of their annual compensation pursuant to Section 457 of the Internal Revenue Code. Employer contributions to the plan were discretionary and were fully vested once the employee was eligible to participate in the 403(b) plan. Employee and employer contributions to the two plans for the year ended June 30, 2016, were \$64,577 and \$40,596, respectively. Employee and employer contributions to the plan for the year ended June 30, 2015, were \$72,185 and \$24,213, respectively.

**NOTE II. 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 lessor of 5.50% per annum or the maximum rate allowed by applicable law. As of June 30, 2016 and 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, 2016 and 2015, was 5.25%.

**NOTE 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 2017 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 \$161 per patient day, or a 3.7% increase. This increase was retroactively applied back to July 1, 2014. The facility received an additional increase to \$168 per patient day 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 2017.
- 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 2017, as the cost of agency staffing is well above typical salary expenses.

**NOTE 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

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF REVENUES, EXPENSE AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>Operating Revenue</b>				
Net patient service revenue	\$ 1,832,000	\$ 1,832,000	\$ 2,066,020	\$ 234,020
<b>Operating Expenses</b>				
Salaries, wages and employee benefits	2,427,759	2,557,759	2,541,919	15,840
Purchased services and other	718,110	768,110	1,072,933	(304,823)
Supplies	267,960	367,960	382,175	(14,215)
Depreciation	108,000	108,000	92,821	15,179
Insurance	105,000	112,500	155,535	(43,035)
Total operating expenses	<u>3,626,829</u>	<u>3,914,329</u>	<u>4,245,383</u>	<u>(331,054)</u>
Operating loss	<u>(1,794,829)</u>	<u>(2,082,329)</u>	<u>(2,179,363)</u>	<u>(97,034)</u>
<b>Nonoperating Revenue (Expense)</b>				
Ad valorem taxes	1,710,000	1,997,500	2,027,411	29,911
Grants and other	92,129	92,129	104,854	12,725
Interest expense	<u>(4,000)</u>	<u>(4,000)</u>	<u>(2,516)</u>	<u>1,484</u>
Total nonoperating revenue, net	<u>1,798,129</u>	<u>2,085,629</u>	<u>2,129,749</u>	<u>44,120</u>
Change in net position	<u>\$ 3,300</u>	<u>\$ 3,300</u>	<u>\$ (49,614)</u>	<u>\$ (52,914)</u>
Net position, beginning of year			<u>1,879,909</u>	
Net position, end of year			<u>\$ 1,830,295</u>	

**Notes to 2016 and 2015 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 REVENUES, EXPENSE AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
For the Year Ended June 30, 2015

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

## Other Supplementary Information

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND  
 For the Years Ended June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>Additions</b>		
Receipts from Patients	\$ 69,712	\$ 98,111
<b>Deductions</b>		
Payments made on behalf of patients	<u>71,458</u>	<u>100,083</u>
	(1,746)	(1,972)
Fiduciary assets and liabilities - beginning of year	<u>7,158</u>	<u>9,130</u>
Fiduciary assets and liabilities - end of year	<u><u>\$ 5,412</u></u>	<u><u>\$ 7,158</u></u>



SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF INDIVIDUAL DEPOSITS ACCOUNTS AND PLEDGED COLLATERAL  
June 30, 2016

Individual Deposit Accounts:		Wells Fargo		International Bank		U.S. Bank	
		Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
Account Name	Account Type						
LTC Operating Account	Interest-bearing checking	\$ 478,545	\$ 478,545	\$ -	\$ -	\$ -	\$ -
LTC Resident Account	Noninterest bearing checking	6,112	5,412				
Payroll	Noninterest bearing checking	13,190	13,517	-	-	-	-
Moreno Valley Operating	Noninterest bearing checking	-	-	229,810	229,810	-	-
Cimarron Operating	Noninterest bearing checking	-	-	20,398	20,398	-	-
Operating Account	Noninterest bearing checking	-	-	-	-	21,441	21,441
Athena Lockbox	Lockbox	-	-	-	-	2,571	2,571
Total deposits		497,847	<u>\$ 497,474</u>	250,208	<u>\$ 250,208</u>	24,012	<u>\$ 24,012</u>
FDIC insurance		(250,000)		(250,000)		(24,012)	
Total uninsured public funds		\$ 247,847		\$ 208		\$ -	
Collateral Requirement - 50% (Section 6-10-17)		123,924		104			
Total Pledged Collateral		160,049		-			
Amount (under)/over collateralized for 50% requirement		\$ 36,126		\$ (104)			

	Proprietary	Agency	Total
	Fund	Fund	
Bank Balance	765,955	\$ 6,112	\$ 772,067
Reconciling items	327	(700)	(373)
Petty cash	1,000	-	1,000
Book balance	<u>\$ 767,282</u>	<u>\$ 5,412</u>	<u>\$ 772,694</u>

Pledged Collateral:

Type of Security	CUSIP Number	Maturity	
		Date	Fair Value
FNMA - Mortgage Backed Securities	31416WFW7	5/1/2040	\$ 28,368
FNMA - Mortgage Backed Securities	31418V4V1	8/1/2040	131,681
			<u>\$ 160,049</u>

## Other Information (Unaudited)

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
 SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (UNAUDITED) (EXCLUDING GRT)  
 June 30, 2016

<u>RFB#/RFP#</u> (If applicable)	<u>Type of Procurement</u>	<u>Vendor Name</u>	<u>Did Vendor Win Contract?</u>	<u>\$ Amount of Awarded Contract</u>	<u>\$ Amount of Amended Contract</u>	<u>Physical Address of Vendor (City, State)</u>	<u>Did the Vendor provide documentation of eligibility for in-state preference?</u>	<u>Did the Vendor provide documentation of eligibility for veterans' preference?</u>	<u>Brief Description of the Scope of Work</u>	<u>If the procurement is attributable to a Component Unit, Name of Component Unit</u>
N/A	RFP	Burgamier and Associates	Winner	\$ 79,081	N/A	Albuquerque, New Mexico 87111	No	No	Accounting Services	N/A

Note - No additional responses on the RFP noted above.

See notes to Schedule of Vendor Information for Purchases Exceeding \$60,000 (Excluding GRT).

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
NOTES TO SCHEDULE OF VENDOR INFORMATION FOR PURCHASES  
EXCEEDING \$60,000 (EXCLUDING GRT)  
June 30, 2016

**This Schedule includes:**

Competitive procurements in FY 2016 that result in one or more contracts with a maximum contract price of over \$60,000 or more, excluding gross receipts tax, regardless of whether expenditures under that contract were over \$60,000 in FY2016;

Sole-source procurements in FY 2016 that result in one or more contracts with a maximum contract price of over \$60,000 or more, excluding gross receipts tax, regardless of whether expenditures under that contract were over \$60,000 in FY2016; and

Emergency procurements in FY 2016 that result in one or more contracts with a maximum contract price of over \$60,000 or more, excluding gross receipts tax, regardless of whether expenditures under that contract were over \$60,000 in FY2016.

**This Schedule does not include:**

Information on a multi-year procurement that occurred in a prior year, even if it resulted in expenditures of \$60,000 or more in FY 2016, unless there was a contract amendment that occurred in the current fiscal year (i) of a contract with a maximum contract price of \$60,000 or more, or (ii) that increased the maximum contract price of an existing contract to equal or exceed \$60,000; and Procurements based on statewide pricing agreements in FY2016.

**Additonal note:**

The District is exempt from the State Procurement Code under the Hospital and Healthcare Exemption outlined in NMSA 1978 Section 13-1-98.2.

## Compliance

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, 2016, 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 schedule for the year ended June 30, 2016, presented as supplementary information, and have issued our report thereon dated October 14, 2016.

**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.

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

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 2016-001 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, 2015-001 and 2016-002.

### *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.



Jaramillo Accounting Group LLC (JAG)  
Albuquerque, New Mexico  
October 14, 2016

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016

<u>Prior Year Number</u>	<u>Description</u>	<u>Current Year Status</u>
2014-002	Patient Accounts Receivable Allowance	Resolved
2014-003	Collateralization	Repeated
2015-001	Requirements for Contracting and Conducting Audits of Agencies	Repeated



SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016

2016-001 — Policies and Procedures (Significant Deficiency)

*Condition:*

The District does not have a complete and current set of accounting policies and procedures in place that are being implemented and monitored for compliance.

*Criteria:*

Policies and procedures are a necessary business practice to ensure operations run smoothly and accounting is accurate. One of their purposes is to keep the District safe from fraud, errors, and noncompliance. In the case of purchases, for example, it is good for the board to approve a procurement policy to ensure the District receives the best obtainable prices.

*Cause:*

The District has gone through several transitions since no longer being affiliated with Presbyterian, then Holy Cross Hospital. The District contracted during 2016 a CPA firm to provide accounting services. With the transition, the policies and procedures are not yet finalized.

*Effect:*

The District is at higher risk of fraud, errors, and non-compliance.

*Auditor Recommendation:*

We recommend working with your new CPA firm to prepare a complete set of policies and procedures, make any necessary changes, and then monitor frequently for compliance.

*Management's Response:*

Corrective Action: The District Administrator is working with the contracted accounting services firm to complete this during 2016-2017 and is in process at this time.

Due Date of Completion: June 30, 2017

Responsible Party: District Administrator

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016

2014-003 — Collateralization (Finding that does not rise to the level of a Significant Deficiency)

*Condition:*

This finding is repeated. The District did not make progress on their prior year corrective action plan. The District had one bank account that was uninsured in the amount of \$208. State law requires that \$104 of this uninsured amount be collateralized. The District did not have collateral in place to meet the State requirement.

*Criteria:*

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.

*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 State's 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:*

Corrective Action: The District Administrator has met with Wells Fargo Bank to insure they will continue to provide adequate collateralization for deposited funds. The District Administrator is scheduled to meet with International Bank in November to again discuss this issue and obtain assurance of their cooperation and compliance.

Due Date of Completion: November 30, 2016

Responsible Party: District Administrator

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016

2015-001 — Requirements for Contracting and Conducting Audits of Agencies (Finding that does not rise to the level of a Significant Deficiency)

*Condition:*

This finding is repeated. The District did not make progress on their prior year corrective action plan. 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 June 17, 2016.

*Criteria:*

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>.

*Cause:*

The District had hired a new accounting services firm and was required by the New Mexico State Audit Rule to rotate audit firms, so additional time was needed.

*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:*

Corrective Action: The responsibility for contracting for audit services has been assigned to the Operations Manager for SCCCSHD and she has already set a date for finalizing the IPA recommendation form audit by March 15, 2017. The District will be responsible for this filing and completion of the appropriate forms.

Due Date of Completion: March 15, 2017

Responsible Party: Operations Manager

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016

2016-002 — Actual Expenditures Exceeded Budget Expenditures (Finding that does not rise to the level of a Significant Deficiency)

*Condition:*

The District's total budgeted operating expenditures were exceeded. Budgeted expenditures were \$3,914,329 and actual expenditures were \$4,245,383, resulting in an overage of \$331,054.

*Criteria:*

According to the New Mexico 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.

*Cause:*

The District incurred unbudgeted expenses for purchases such as supplies and insurance since they were no longer under the HCH purchase agreements after September 30, 2015. Purchasing items on their own caused higher costs.

*Effect:*

The District could be cutting into cash balances and overspending if budget adjustments are not made during the year.

*Auditor's 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 during the year.

*Management's Response*

Corrective Action: The District Administrator is working on negotiating contracts that will decrease their costs and will also work with their contract accountant throughout the year to review the year to date expenses and project the expenses for June. A formal review will take place at least quarterly. If there are extraordinary expenses that result in totals that are going to exceed the budgeted amount for the year, the District Board 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 by assuring that actual expenses do not exceed the budget expenses for the year.

Due Date of Completion: Board meetings (at least quarterly), with final budget adjustment approval at the May 2017 Board meeting.

Responsible Party: District Administrator

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT  
EXIT CONFERENCE  
JUNE 30, 2016

An exit conference was held in a closed session of the Board of Trustees on October 10, 2016, with the following attending:

**SCCCSHD Board of Trustees**

Marian Vigil, Madame Chair  
Fred Martinez, Secretary/Treasurer  
Nate Lay, Board Member  
Bruce Jassman, Board Member

**SCCCSHD Administration**

Bill Norris, District Administrator  
Kaycee Sandoval, HR Director & Business Operations Compliance Officer  
Sandra Salazar, AR Supervisor

**Jaramillo Accounting Group LLC**

Audrey J. Jaramillo, CPA, CFE, Partner  
Phillip Gonzales, CGFM, Audit Senior

**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.