



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2017 AND 2016

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT

TABLE OF CONTENTS

OFFICIAL ROSTER	1
INDEPENDENT AUDITOR’S REPORT	2-4
REQUIRED SUPPLEMENTARY INFORMATION	
Management’s Discussion and Analysis (Unaudited)	5-9
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Statements of Fiduciary Assets and Liabilities—Agency Fund	13
Notes to Financial Statements	14-23
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Statements	24-25
OTHER SUPPLEMENTARY INFORMATION	
Schedules of Changes in Fiduciary Assets and Liabilities—Agency Fund	26
Schedule of Individual Deposit Accounts and Pledged Collateral	27-28
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 <i>Government Auditing Standards</i>	29-30
Summary Schedule of Prior Audit Findings	31
Schedule of Findings and Responses	32-33
Exit Conference	34

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT

OFFICIAL ROSTER

JUNE 30, 2017

Board of Trustees

Marian Vigil
Steve Briggs
Frederick Martinez
Nate Lay
Bruce Jassman

Madame Chair
Vice Chairperson
Secretary/Treasurer
Trustee
Trustee

Principal Employees

Kaycee Sandoval

District Administrator



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and agency fund of South Central Colfax County Special Hospital District ("the District") as of and for the years ended June 30, 2017 and 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 District's budgetary comparison statement presented as supplementary information as defined by the Governmental Accounting Standards Board for the years ended June 30, 2017 and 2016, 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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no

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

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, 2017 and 2016, 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 financial statements referred to above present fairly, in all material respects, the respective budgetary comparison statement of the District for the years ended June 30, 2017 and 2016, 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, on pages 5-9, 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 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

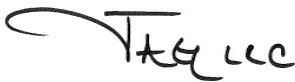
Our audits for the years ended June 30, 2017 and 2016 were conducted to forming opinions on the basic financial statements and the budgetary comparison statement of the District. The Schedule of Individual Deposit Accounts and Pledged Collateral and the Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund, as required by 2.2.2.10(A)(2)(e) NMAC are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

The 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 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017 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 12, 2017

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 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, 2017, 2016, and 2015. 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>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,486,493	\$ 1,301,737	\$ 1,331,579
Noncurrent assets	<u>858,902</u>	<u>925,201</u>	<u>929,717</u>
Total assets	<u>\$ 2,345,395</u>	<u>\$ 2,226,938</u>	<u>\$ 2,261,296</u>
Current liabilities	\$ 233,384	\$ 396,643	\$ 381,387
Net position			
Net investment in capital assets	858,902	925,201	929,717
Unrestricted	<u>1,253,109</u>	<u>905,094</u>	<u>950,192</u>
Total net position	<u>2,112,011</u>	<u>1,830,295</u>	<u>1,879,909</u>
Total liabilities and net position	<u>\$ 2,345,395</u>	<u>\$ 2,226,938</u>	<u>\$ 2,261,296</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016**

Highlight of changes in Statement of Net Position: 2017 vs. 2016

The District's total assets increased by approximately \$118,000 in 2017 compared to 2016. This increase in total assets was due primarily to the following:

- Cash and cash equivalents dropped by approximately \$166,000 due to \$150,000 in payments on accounts payable occurring in the last week of June 2017.
- Capital assets decreased by approximately \$66,000 primarily due to the net effect of \$97,000 of depreciation expense offset by the purchase of \$31,000 of new assets.

The above was offset by the following:

- Patient receivables increased by approximately \$53,000 due to pending Medicaid – pending residents at the long-term care facility at June 30, 2017.
- Ad valorem taxes receivable increased by approximately \$291,000. The increase is primarily due to the County's recent property tax software upgrade which now allows the County to provide delinquent property taxes, by tax year, for each taxing district. Prior to 2017, management was unable to accurately estimate the ad valorem receivable and, therefore, recorded a conservative estimate.

The District's total liabilities decreased approximately \$163,000 in 2017 as compared to 2016, due to the timing of payments on accounts payable at year end.

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

The District's total assets decreased by approximately \$34,000 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.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016**

Highlight of changes in Statement of Net Position: 2016 vs. 2015 (Continued)

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.

The District's 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.

CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenue	\$ 2,034,066	\$ 2,066,020	\$ 2,049,857
Operating expenses	<u>4,120,841</u>	<u>4,245,383</u>	<u>3,874,021</u>
Operating loss	(2,086,775)	(2,179,363)	(1,824,164)
Nonoperating revenue	<u>2,368,491</u>	<u>2,129,749</u>	<u>2,124,792</u>
Change in net position	281,716	(49,614)	300,628
Net position, beginning of year	<u>1,830,295</u>	<u>1,879,909</u>	<u>1,579,281</u>
Net position, end of year	<u>\$ 2,112,011</u>	<u>\$ 1,830,295</u>	<u>\$ 1,879,909</u>

Highlight of changes in Statement of Changes in Net Position 2017 vs. 2016

- Operating revenue decreased by approximately \$32,000 in 2017 compared to 2016, primarily due to rate decreases offset by contractual allowances and write-offs.
- Nonoperating revenue (expense) increased by approximately \$239,000 in 2017 compared to 2016, primarily due to more accurate revenue recognition as described in the discussion above on ad valorem receivable.
- Operating expenses decreased by approximately \$125,000 in 2017 compared to 2016, primarily due to the decrease in costs as a result of the District's termination of contract services with Taos Professional Services.
- As the District completed the fiscal year, net position increased by approximately \$282,000.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016**

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

- Operating revenue increased by approximately \$16,000 in 2016 compared to 2015, primarily due to a decrease in the contractual discounts and allowances and patient account write-offs.
- Nonoperating revenue (expense) increased by approximately \$5,000 in 2016 compared to 2015, primarily due to an increase in capital outlay funding from the State of New Mexico.
- 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.

Highlights of 2017 Performance vs. Fiscal Year Budget

- Net patient service revenue was over budget by approximately \$18,000 due to the increase in the Medicaid Low Nursing Facility (LNF) care rate in August 2016.
- Supplies were over budget by \$14,000 due to higher than expected cost on pharmaceutical supplies.
- Ad valorem taxes (mill levy) income was over budget by approximately \$241,000 primarily due to the recognition of additional delinquent property taxes that were previously not measurable or estimable.

Highlights of 2016 Performance vs. Fiscal Year Budget

- Net patient service revenue was under budget by approximately \$234,000 due to lower than anticipated census and decreased patient services performed at the clinics.
- 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 was 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 assessed and collected by the County.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017 AND 2016**

Capital Assets

At the end of fiscal year 2017, the District had approximately \$859,000 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 \$66,000 from the prior year, due to current year depreciation in excess of capital additions. For fiscal year 2016, the decrease of approximately \$5,000 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 2018's Budget and Rates

Key factors affecting 2018'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 \$55,000 for the two clinics.
- The budget is a conservative reflection of the prior year's actual revenues and expenses as levels are expected to remain consistent in fiscal year 2018.
- Management expects an increase in total net position from 2017 to 2018, 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, 2017 AND 2016**

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 601,747	\$ 767,282
Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$72,756 in 2017 and \$32,303 in 2016	451,461	398,398
Ad valorem taxes receivable	327,606	36,764
Prepaid expenses	27,092	24,998
Supplies inventory	78,587	74,295
Total current assets	1,486,493	1,301,737
Capital assets, net	858,902	925,201
Total assets	\$ 2,345,395	\$ 2,226,938
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 36,342	\$ 167,931
Accrued payroll and related benefits	86,581	77,079
Accrued compensated absences	73,524	100,186
Other accrued liabilities	36,937	51,447
Total current liabilities	233,384	396,643
Net position		
Net investment in capital assets	858,902	925,201
Unrestricted	1,253,109	905,094
Total net position	2,112,011	1,830,295
Total liabilities and net position	\$ 2,345,395	\$ 2,226,938

See Notes to Financial Statements.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Operating Revenue		
Net patient service revenue	<u>\$ 2,034,066</u>	<u>\$ 2,066,020</u>
Operating Expenses		
Salaries, wages and employee benefits	2,539,440	2,541,919
Purchased services and other	893,503	1,072,933
Supplies	448,229	382,175
Depreciation	100,241	92,821
Insurance	139,428	155,535
Total operating expenses	<u>4,120,841</u>	<u>4,245,383</u>
Operating loss	<u>(2,086,775)</u>	<u>(2,179,363)</u>
Nonoperating revenue (expense)		
Ad valorem taxes	2,267,188	2,027,411
Grants and other	102,476	104,854
Interest expense	<u>(1,173)</u>	<u>(2,516)</u>
Total nonoperating revenue	<u>2,368,491</u>	<u>2,129,749</u>
Change in net position	281,716	(49,614)
Net position, beginning of year	<u>1,830,295</u>	<u>1,879,909</u>
Net position, end of year	<u><u>\$ 2,112,011</u></u>	<u><u>\$ 1,830,295</u></u>

See Notes to Financial Statements.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
JUNE 30, 2017 AND 2016**

	2017	2016
Cash Flows From Operating Activities		
Cash received from patients and third-party payors	\$ 2,127,582	\$ 1,918,646
Cash paid to employees	(2,556,600)	(2,276,485)
Cash paid to vendors	(1,783,216)	(1,610,643)
Net cash used in operating activities	(2,212,234)	(1,968,482)
Cash Flows From Noncapital Financing Activities		
Ad valorem taxes	1,976,346	2,057,416
Grants and other	102,476	104,854
Interest paid on borrowing	(1,173)	(2,516)
Net cash provided by noncapital financing activities	2,077,649	2,159,754
Cash Flows From Capital and Related Financing Activities		
Capital asset purchases	(30,950)	(88,307)
Net change in cash and cash equivalents	(165,535)	102,965
Cash and cash equivalents, beginning of year	767,282	664,317
Cash and cash equivalents, end of year	\$ 601,747	\$ 767,282
Reconciliation of operating revenue (loss) to net cash used in operating activities		
Operating loss	\$ (2,086,775)	\$ (2,179,363)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	100,241	92,821
Provision for (reversal of) bad debts	40,452	(105,062)
Changes in assets and liabilities:		
Patient accounts receivable	(93,516)	152,942
Prepaid expenses	(2,094)	40,256
Supplies inventory	(4,292)	14,666
Account payable	(131,589)	34,817
Accrued liabilities	(34,661)	(19,559)
Net cash used in operating activities	\$ (2,212,234)	\$ (1,968,482)

See Notes to Financial Statements.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
 STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND
 JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash	<u>\$ 9,490</u>	<u>\$ 5,412</u>
 LIABILITIES		
Funds held for patients	<u>\$ 9,490</u>	<u>\$ 5,412</u>

See Notes to Financial Statements.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, 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 financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The financial statements of the District conform with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments. The following is a summary of significant policies.

Included in the District's 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. The District has no component units.

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, 2017 or 2016.

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.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016.

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 several 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 net 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, 2017 and 2016.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 2017 and 2016. 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 years ended June 30, 2017 and 2016, total actual operating expenses exceeded budgeted operating expenses.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Reclassifications. Certain reclassifications were made to 2016 information to conform with 2017 presentation.

NOTE 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, 2017, the District had deposits with a bank balance of \$610,476, including \$6,933 of patient trust funds in the District's agency fund. Of this total bank balance for the year ended June 30, 2017, there were no amounts subject to custodial credit risk, as all amounts were either insured or collateralized. 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 was subject to custodial credit risk, as this amount was not insured or collateralized. The carrying amount of the District's deposits as of June 30, 2017 and 2016, was \$610,237 and \$771,694, respectively. Additionally, the District's petty cash fund totaled \$1,000 as of June 30, 2017 and 2016.

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:

	2017	2016
Gross charges		
Inpatient	\$ 1,712,150	\$ 1,766,960
Outpatient	1,159,562	1,094,002
Total gross charges	2,871,712	2,860,962
Contractual adjustments and provision for uncollectible accounts	(837,646)	(794,942)
Net patient service revenue	\$ 2,034,066	\$ 2,066,020

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5. AD VALOREM TAXES

Hospital District Mill Levy. The New Mexico Hospital Funding Act (the “Act”), adopted in 1980 and amended in 1981, allows for counties to provide expanded tax support to be used for operations and maintenance of qualified hospitals within the special hospital district. 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 therefor 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 2017 and 2016, 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 1 of each year to be paid in whole or in two installments by November 10 and April 10 of each year. Colfax County (County) collects taxes for the District and distributes them once per month.

Additional delinquent mill levy taxes were recognized in 2017 as the County recently upgraded the capability of its property tax software and was able to provide the District accurate outstanding Hospital District Mill Levy receivables by year (back ten years) at June 30, 2017. Prior to the current year-end, accurate Hospital District Mill Levy receivable amounts were not measurable or available and, accordingly, management conservatively recorded previous year-end mill levy receivables and revenue. No allowance has been recorded as management expects all material mill levy amounts will be collected.

Oil and Gas Production and Equipment Mill Levy. In 2017 and 2016, the County also assessed a mill levy of 4.25% per every \$1,000 on the assessed value of the equipment used in production of oil, natural gas, carbon dioxide and non-hydrocarbon gas, and on those products severed and sold from each production unit. These tax collections are assessed monthly and distributed the third month after the business activity month.

Ad valorem taxes revenue recognized for the year ended June 30, 2017 and 2016 was as follows:

	2017	2016
Hospital District Mill Levy	\$ 2,156,816	\$ 1,912,896
Oil and Gas Production Mill Levy	93,830	81,972
Oil and Gas Production Equipment Mill Levy	16,542	32,543
Total	<u>\$ 2,267,188</u>	<u>\$ 2,027,411</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6. CAPITAL ASSETS

Capital assets activity of the District for the year ended June 30, 2017 was as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Capital assets not being depreciated				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	117,253	-	-	117,253
Total capital assets not being depreciated	<u>159,190</u>	<u>-</u>	<u>-</u>	<u>159,190</u>
Capital assets being depreciated				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,658,039	9,527	-	1,667,566
Equipment	520,170	21,423	-	541,593
Total capital assets being depreciated	<u>2,349,756</u>	<u>30,950</u>	<u>-</u>	<u>2,380,706</u>
Accumulated depreciation				
Land improvements	(89,650)	(7,619)	-	(97,269)
Building and improvements	(1,087,770)	(68,884)	-	(1,156,654)
Equipment	(406,325)	(20,746)	-	(427,071)
Total accumulated depreciation	<u>(1,583,745)</u>	<u>(97,249)</u>	<u>-</u>	<u>(1,680,994)</u>
Total capital assets being depreciated, net	<u>766,011</u>	<u>(66,299)</u>	<u>-</u>	<u>699,712</u>
Capital assets, net	<u>\$ 925,201</u>	<u>\$ (66,299)</u>	<u>\$ -</u>	<u>\$ 858,902</u>

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

Capital assets not being depreciated				
Land	\$ 41,937	\$ -	\$ -	\$ 41,937
Construction in progress	117,253	-	-	117,253
Total capital assets not being depreciated	<u>159,190</u>	<u>-</u>	<u>-</u>	<u>159,190</u>
Capital assets being depreciated				
Land improvements	171,547	-	-	171,547
Buildings and improvements	1,634,488	23,551	-	1,658,039
Equipment	455,414	64,756	-	520,170
Total capital assets being depreciated	<u>2,261,449</u>	<u>88,307</u>	<u>-</u>	<u>2,349,756</u>
Accumulated depreciation				
Land improvements	(81,909)	(7,741)	-	(89,650)
Building and improvements	(1,036,191)	(51,579)	-	(1,087,770)
Equipment	(372,822)	(33,503)	-	(406,325)
Total accumulated depreciation	<u>(1,490,922)</u>	<u>(92,823)</u>	<u>-</u>	<u>(1,583,745)</u>
Total capital assets being depreciated, net	<u>770,527</u>	<u>(4,516)</u>	<u>-</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 FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7. ACCRUED COMPENSATED ABSENCES

A schedule of changes in the District's accrued compensated absences for the year ended June 30, 2017 is as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 100,186	\$ 131,548	\$ (158,210)	\$ 73,524	\$ 73,524

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

Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 94,554	\$ 161,182	\$ (155,550)	\$ 100,186	\$ 100,186

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 following 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 following 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.

SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8. CONTINGENCIES (CONTINUED)

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, 2017. Workers' compensation is covered through the New Mexico Hospital Workers' Compensation group through December 31, 2017. 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, 2017 and 2016, approximated \$139,000 and \$156,000, 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, 2019 and is voted on by general ballot every four years.

NOTE 9. CONCENTRATIONS OF CREDIT RISK

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:

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 9. CONCENTRATIONS OF CREDIT RISK (CONTINUED)

	2017		2016	
Medicaid	\$ 270,935	52%	\$ 221,264	51%
Self-pay	105,188	20%	101,447	24%
Commercial insurance and other	99,075	19%	67,132	16%
Medicare	<u>49,019</u>	<u>9%</u>	<u>40,858</u>	<u>9%</u>
	524,217	<u>100%</u>	430,701	<u>100%</u>
Allowance	<u>(72,756)</u>		<u>(32,303)</u>	
Patient accounts receivable, net of allowance for estimated uncollectible accounts	<u>\$ 451,461</u>		<u>\$ 398,398</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.

Beginning January 1, 2016, 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, 2017 were \$68,503 and \$36,447, respectively. Employee and employer contributions to the plans for the year ended June 30, 2016 were \$64,577 and \$40,596, respectively.

NOTE 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 lessor of 5.50% per annum or the maximum rate allowed by applicable law. In 2017, the District had one draw on the line of credit for \$80,000 offset by one paydown for the same amount. As of June 30, 2017, and 2016, 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, 2017 and 2016 was 5.25%. This agreement expires on December 5, 2017.

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 taxes revenue from the Colfax County Treasurer's office in fiscal year 2018.
- 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 2018, 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
BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenue				
Net patient service revenue	\$ 2,015,882	\$ 2,015,882	\$ 2,034,066	\$ 18,184
Operating Expenses				
Salaries, wages and employee benefits	2,487,263	2,559,263	2,539,440	19,823
Purchased services and other	974,712	874,712	893,503	(18,791)
Supplies	393,882	433,882	448,229	(14,347)
Depreciation	98,972	98,972	100,241	(1,269)
Insurance	141,917	141,917	139,428	2,489
Total operating expenses	<u>4,096,746</u>	<u>4,108,746</u>	<u>4,120,841</u>	<u>(12,095)</u>
Operating loss	<u>(2,080,864)</u>	<u>(2,092,864)</u>	<u>(2,086,775)</u>	<u>6,089</u>
Nonoperating Revenue (Expense)				
Ad valorem taxes	2,026,016	2,026,016	2,267,188	241,172
Grants and other	104,946	104,946	102,476	(2,470)
Interest expense	(2,864)	(2,864)	(1,173)	1,691
Total nonoperating revenue	<u>2,128,098</u>	<u>2,128,098</u>	<u>2,368,491</u>	<u>240,393</u>
Change in net position	<u>\$ 47,234</u>	<u>\$ 35,234</u>	<u>281,716</u>	<u>\$ 246,482</u>
Net position, beginning of year			<u>1,830,295</u>	
Net position, end of year			<u><u>\$ 2,112,011</u></u>	

Notes to 2017 and 2016 Budget and Actual Statements:

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
BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenue				
Net patient service revenue	\$ 1,832,000	\$ 1,832,000	\$ 2,066,020	\$ 234,020
Operating Expenses				
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>
Nonoperating Revenue (Expense)				
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	(4,000)	(4,000)	(2,516)	1,484
Total nonoperating revenue	<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>	(49,614)	<u>\$ (52,914)</u>
Net position, beginning of year			<u>1,879,909</u>	
Net position, end of year			<u>\$ 1,830,295</u>	

OTHER SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
ASSETS				
Cash and cash equivalents	<u>\$ 5,412</u>	<u>\$ 44,240</u>	<u>\$ (40,162)</u>	<u>\$ 9,490</u>

LIABILITIES				
Funds held for patients	<u>\$ 5,412</u>	<u>\$ 44,240</u>	<u>\$ (40,162)</u>	<u>\$ 9,490</u>

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS				
Cash and cash equivalents	<u>\$ 7,158</u>	<u>\$ 69,712</u>	<u>\$ (71,458)</u>	<u>\$ 5,412</u>

LIABILITIES				
Funds held for patients	<u>\$ 7,158</u>	<u>\$ 69,712</u>	<u>\$ (71,458)</u>	<u>\$ 5,412</u>

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF INDIVIDUAL DEPOSITS ACCOUNTS AND PLEDGED COLLATERAL
AS OF JUNE 30, 2017**

Individual Deposit Accounts:

Account Name	Account Type	Wells Fargo		International Bank		U.S. Bank	
		Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
LTC Operating Account	Interest-bearing checking	\$ 347,896	\$ 345,099	\$ -	\$ -	\$ -	\$ -
LTC Resident Account	Noninterest bearing checking	6,933	6,693				
Payroll	Noninterest bearing checking	9,726	13,517	-	-	-	-
Moreno Valley Operating	Noninterest bearing checking	-	-	236,087	236,087	-	-
Cimarron Operating	Noninterest bearing checking	-	-	7,129	7,129	-	-
Athena Lockbox	Noninterest bearing checking	-	-	-	-	2,705	2,705
Total deposits		<u>364,555</u>	<u>\$ 365,309</u>	<u>243,216</u>	<u>\$ 243,216</u>	<u>2,705</u>	<u>\$ 2,705</u>
FDIC insurance		<u>(250,000)</u>		<u>(243,216)</u>		<u>(2,705)</u>	
Total uninsured public funds		<u>\$ 114,555</u>		<u>\$ -</u>		<u>\$ -</u>	

Collateral Requirement - 50% (Section 6-10-17)

Total pledged collateral

Amount (under)/over collateralized
for 50% requirement

\$ 57,278	\$ -
<u>130,586</u>	<u>-</u>
<u>\$ 73,308</u>	<u>\$ -</u>

	Proprietary Fund	Agency Fund	Total
Bank balance	\$ 603,543	\$ 6,933	\$ 610,476
Reconciling items	(2,796)	2,557	(239)
Petty cash	1,000	-	1,000
Book balance	<u>\$ 601,747</u>	<u>\$ 9,490</u>	<u>\$ 611,237</u>

Pledged collateral:

Type of Security	CUSIP Number	Maturity	Fair Value
FNMA - Mortgage Backed Securities	31294MBP5	11/1/2025	\$ 2,569
FNMA - Mortgage Backed Securities	3138AQB96	10/1/2026	15,831
FNMA - Mortgage Backed Securities	3138AV6U4	12/1/2026	112,186
			<u>\$ 130,586</u>

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

Individual Deposit Accounts:

Account Name	Account Type	Wells Fargo		International Bank		U.S. Bank	
		Bank Balance	Book Balance	Bank Balance	Book Balance	Bank Balance	Book Balance
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	Noninterest bearing checking	-	-	-	-	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		<u>\$ 247,847</u>		<u>\$ 208</u>		<u>\$ -</u>	
Collateral Requirement - 50% (Section 6-10-17)		\$ 123,924		\$ 104			
Total pledged collateral		<u>160,049</u>		<u>-</u>			
Amount (under)/over collateralized for 50% requirement		<u>\$ 36,125</u>		<u>\$ (104)</u>			

	Proprietary Fund	Agency Fund	Total
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>

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***

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

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and the budgetary comparison statement of the District, presented as supplementary information and have issued our report thereon dated October 12, 2017.

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 to expressing our opinions on the financial statements, but not to 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 2017-001 that we consider to be a significant deficiency.

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

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 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 12, 2017

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Prior Year	Description	Current Year
2014-003	Collateralization	Resolved
2015-001	Requirements for Contracting and Conducting Audits of Agencies	Resolved
2016-001	Policies and Procedures	Resolved
2016-002	Actual Expenditures Exceeded Budget Expenditures	Repeated

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

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

Condition: The District's total budgeted operating expenditures were exceeded. Budgeted expenditures were \$4,108,746 and actual expenditures were \$4,120,841, resulting in an overage of \$12,095. The District has made significant progress tracking their budget status throughout the year; however, they did not anticipate the year-end journal entries in adjusting their budget.

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 higher than expected expenses due to year-end journal entries.

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 will work with the contract accountant to review policy & procedure to ensure expenses are accrued correctly throughout the year. The formal review will continue to take place at least quarterly and 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.

Due Date of Completion: Board meetings (at least quarterly), with final budget adjustment approval at the May 2018 Board meeting.

Responsible Party: District Administrator

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

2017-001 — Reconciliation of Clinic Patient Accounts Receivable (Significant Deficiency)

Condition: The District uses Athena medical billing software (Athena) at its two clinics. This system maintains all historical and relevant patient information relating to the services being provided, including the monitoring of billing information.

We obtained summary level data for the monthly revenue and accounts receivable for the District's two clinics as of June 30, 2017, which includes the aging of these receivables. However, the District was unable to generate this report at the detail level by patient as of that date.

Criteria: Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements, including properly recording and reconciling revenues and receivables.

Cause: The billing software used to track patient billing is not designed to provide patient accounts receivable detail for the dates other than the date that the query is run and the District did not run the patient accounts receivable detail on June 30, 2017.

Effect: Management was unable to provide patient accounts receivable by patient at June 30, 2017 for the District's two clinics.

Auditor's Recommendation: As part of the District's month-end and year-end closing process, we recommend the District keep detailed month-end receivable records by patient for all the types of medical services delivered by the District. We also recommend management determine if it is possible to automate (as part of the month-end and year-end closing process) the storage of these electronic records.

Management's Response: The process for collection of accounting records for month end and year end has been updated to include running the detailed report at the time of close each month and at year end ensuring that the detailed information is available for review.

Due Date of Completion: June 30, 2018

Responsible Party: District Administrator

**SOUTH CENTRAL COLFAX COUNTY SPECIAL HOSPITAL DISTRICT
EXIT CONFERENCE
JUNE 30, 2017**

An exit conference was held in a closed session of the Board of Trustees on September 25, 2017, with the following attending:

SCCCSHD Board of Trustees

Steve Briggs, Vice Chair
Fred Martinez, Secretary/Treasurer
Nate Lay, Board Member
Bruce Jassman, Board Member

SCCCSHD Administration

Kaycee Sandoval, Administrator
Sandra Salazar, AR Supervisor
Ashley Torres, HR Manager

Jaramillo Accounting Group LLC

Scott Eliason, CPA, Partner

Jaramillo Accounting Group (JAG) assisted in the preparation of the financial statements presented in this report. The District's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.