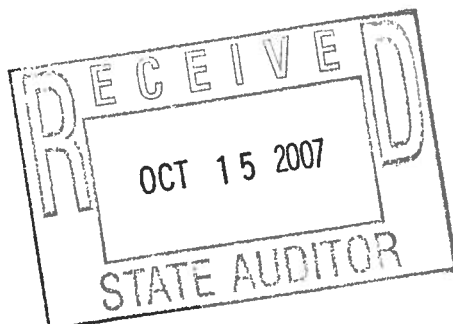


**STATE AUDITOR
STATE OF NEW MEXICO
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EUNICE SPECIAL HOSPITAL DISTRICT

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2007



RECEIVED
DEC 12 2007
STATE AUDITOR



OFFICE OF THE STATE AUDITOR

Hector H. Balderas

December 17, 2007

SAO Ref. No. 2030

Maurice Hughes, Chairman
Eunice Special Hospital District
P.O. Box 239
Eunice, NM 88231-0239

SUBJECT: Audit Report—Eunice Special Hospital District—2006-2007 Fiscal Year--Prepared by Johnson, Miller & Co., CPAs

Your agency audit report was received by the Office of the State Auditor (Office) on October 15, 2007. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, **the audit report does not become public record until ten days after the date of this letter.** Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, and the Department of Finance and Administration; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10.J.(3)(d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies.*

The independent public accountant's findings and comments are included in the audit report on pages 27 - 32. **It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.**

HECTOR H. BALDERAS
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration-
Local Government Division
Johnson, Miller & Co., CPAs

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DISTRICT OFFICIALS

June 30, 2007

DISTRICT BOARD OF TRUSTEES

Maurice Hughes	Chairman
Glen Jenkins	Vice Chairman
Lucille Kellum	Secretary/Treasurer
Barbara Baggett	Member
Billy Thrash	Member



JOHNSON, MILLER & CO.

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico

Midland, Texas

Odessa, Texas

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON BASIC FINANCIAL STATEMENTS, BUDGETARY COMPARISON, AND SUPPLEMENTAL INFORMATION

Mr. Hector H. Balderas
New Mexico State Auditor
Eunice Special Hospital District Officials
Eunice, New Mexico

We have audited the accompanying basic financial statements of Eunice Special Hospital District (the District), as of and for the year ended June 30, 2007, as listed in the table of contents. We also have audited the budgetary comparison statement presented as supplemental information for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Eunice Special Hospital District as of June 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison of the District as of and for the year ended June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2007 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5-9 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and on the budgetary comparison that collectively comprise the District's financial statements. The other supplemental information as listed in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Johnson, Miller & Co.

Hobbs, New Mexico
October 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Eunice Special Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2007 and June 30, 2006. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The District's total assets increased by \$1,112,604 while total liabilities decreased by \$100,241 resulting in total net assets increasing \$1,212,845.
- The District's operating expenses in fiscal year 2007 were \$759,239.
- As of the close of the current fiscal year, the District reported an ending fund balance of \$3,766,878.
- There was \$400,312 of revenue generated from service charges.
- Investment income increased by \$65,396 reflective of the decision to move monies into the New Mexico State Treasurer's investment pool, which earns at a slightly higher rate than that of banks.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to basic financial statements. This report also contains supplemental information in addition to the basic financial statements themselves.

Financial Statement:

The financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event, giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period (e.g., uncollected taxes and earned but unused vacation leave).

The financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activity). The governmental activities include a local 2-mill levy. The business type activity includes providing medical services to the community of Eunice, New Mexico and surrounding area.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund financial statements

The District's basic services are reported in one unrestricted fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using the accrual basis of accounting. The statements provide a detailed short-term view of the District's general operations and the basic services it provides.

Notes to basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statement. The notes to basic financial statements can be found beginning on page 13 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of an entity's financial position. By far the largest portion of the District's net assets is cash and investments. The balance of unrestricted funds may be used to meet the District's ongoing obligations to citizens, patients, and creditors.

Governmental activities

- Property tax revenue \$1,483,069
- Investment income \$99,256

Business-type activities

- Revenue from service charges \$400,312
- Miscellaneous revenue \$0

Net Assets

To begin our analysis, a summary of the District's Statement of Net assets is presented in Table A-1.

**Table A-1
Condensed Statements of Net Assets**

	FY 2007	FY 2006	Total Change
Current and Other Assets	\$3,205,783	\$2,141,112	\$1,064,671
Capital Assets	959,293	911,360	47,933
Total Assets	4,165,076	3,052,472	1,112,604
Liabilities	398,198	498,439	(100,241)
Total Net Assets	\$3,766,878	\$2,554,033	\$1,212,845

As can be seen from the table above, net assets increased \$1,212,845 to \$3,766,878 in fiscal year 2007 from \$2,554,033 in fiscal year 2006. Increased charges for services, tax revenues, and investment earnings led to higher asset balances; payments on the District's outstanding bond issue decreased liabilities. These effects combined to increase net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

NET ASSETS (cont.)

Table A-2
Condensed Statement of Revenues,
Expenses and Changes in Net Assets

			Dollar
	FY 2007	FY 2006	Change
Operating Revenues	\$400,312	\$200,714	\$199,598
Non-Operating Revenues	1,571,772	1,497,251	74,521
Total Revenues	1,972,084	1,697,965	274,119
Depreciation Expense	43,417	46,893	(3,476)
Other Operating Expenses	715,822	572,764	143,058
Total Expenses	759,239	619,657	139,582
Net Income	1,212,845	1,078,308	134,537
Beginning Net Assets	2,554,033	1,475,725	1,078,308
Ending Net Assets	\$3,766,878	\$2,554,033	\$1,212,845

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes.

The District's operating revenues increased by \$199,598.

Operating revenues increased significantly from 2006 to 2007 mainly because of the increase of patients seen in the clinic. Revenues connected to drug testing for companies involved in the booming local economy increased as well.

Significant changes in operating expenses are the result of adding additional staff, including an additional practitioner. In addition, the increase in clinic patients necessitated the purchase of more medical and office supplies in order to provide services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

BUDGETARY HIGHLIGHTS

The District adopts an annual Operating Budget following public workshops and a public hearing. The Operation Budget includes proposed expenses and the means of financing them. The District's operating budget was revised at the Board of Trustees meeting on February 8, 2007 by unanimous vote. The revision was due to increased costs related to increased patient load and additional staff.

A fiscal year 2007 budget comparison and analysis is presented in Table A-3

**Table A-3
Budget vs. Actual
Year Ended June 30, 2007**

	Budget	Actual	Variance
Revenues			
Property Taxes	\$1,171,938	\$1,477,154	\$305,216
Charges for Services	339,600	335,157	(4,443)
Investment Earnings	70,916	94,336	23,420
Total Revenues	\$1,582,454	\$1,906,647	\$324,193
Expenses			
Personnel Services	495,000	370,975	124,025
Contractual Services	44,300	37,179	7,121
Utilities	15,000	17,363	(2,363)
Repairs and Maintenance	8,200	4,784	3,416
Other Supplies & Expenses	225,300	166,986	58,314
Insurance Claims & Expenses	96,720	70,587	26,133
Misc. Expenses	88,700	477	88,223
Total Expenses	973,220	668,351	304,869
Operating (Loss) Income	\$609,234	\$1,238,296	\$629,062

The variances in the revenue amounts within the budget are the result of the same items listed as significant changes on page 6 of this report. Higher-than-expected property tax revenue and charges for services allowed the District to move more cash into investments, leading to higher investment earnings.

Expense variations are due to delays experienced in finding suitable staff and in increased demands for clinic services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CAPITAL ASSETS:

Table A-4
Capital Assets

	FY 2007	FY 2006	Dollar Change
Property, plant and equipment	\$151,853	\$135,504	\$16,349
Building	854,762	854,762	-0-
Land	85,000	10,000	75,000
Less Accumulated Depreciation	(132,323)	(88,906)	(43,417)
Total Capital Assets	\$959,292	\$911,360	\$47,932

The District purchased land in fiscal year 2007 as part of a plan to expand clinic operations and services. Additional office equipment was also purchased in order to meet the increased demand for services.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Trustees of the District considered many factors when setting the fiscal year 2007 budget. One of those factors is the local economy and the impact our fees have on the community. By maintaining reasonable fees the District believes it can continue to provide medical care to all the community of Eunice, NM.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Barbara Durham, Business Manager, Eunice Special Hospital District, P.O. Box 239, Eunice, New Mexico 88231 or by phone at 575-394-1091.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF NET ASSETS

Proprietary Funds

June 30,
2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents (NOTE B)	651,935
Investments (NOTE C)	2,331,180
Accounts receivable, net (NOTE D)	199,181
Other receivables	10,059
Inventories	13,428

Total current assets 3,205,783

NON-CURRENT ASSETS

Property, plant and equipment (NOTE E)	959,293
--	---------

Total non-current assets 959,293

TOTAL ASSETS 4,165,076

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	50,651
Payroll liabilities	11,778
Compensated absences (NOTE I)	3,000
Bonds, notes and loans payable (NOTE F)	165,000

Total current liabilities 230,429

NON-CURRENT LIABILITIES

Compensated absences (NOTE I)	2,769
Bonds, notes and loans payable (NOTE F)	165,000

Total non-current liabilities 167,769

TOTAL LIABILITIES 398,198

NET ASSETS

Invested in capital assets	959,293
Unrestricted	2,807,585

TOTAL NET ASSETS \$ 3,766,878

The accompanying notes are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds

	Year Ended June 30, 2007
	<u> </u>
OPERATING REVENUES	
Charges for services	400,312
Other revenue	<u>0</u>
Total operating revenues	400,312
OPERATING EXPENSES	
Personnel services	370,812
Contractual services	37,179
Utilities	17,363
Repairs and maintenance	4,784
Other supplies and expenses	214,620
Insurance claims and expenses	70,587
Depreciation	43,417
Miscellaneous expenses	<u>477</u>
Total operating expenses	<u>759,239</u>
Operating (loss)	<u>(358,927)</u>
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	1,483,069
Interest income	99,256
Interest expense	<u>(10,553)</u>
Total non-operating revenues (expenses)	<u>1,571,772</u>
Increase in net assets	1,212,845
Total net assets - beginning of period	<u>2,554,033</u>
Total net assets - end of period	<u>\$ 3,766,878</u>

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF CASH FLOWS

Proprietary Funds

	<u>Year Ended June 30, 2007</u>
OPERATING ACTIVITIES	
Cash provided by business-type activities	\$ 318,378
Cash paid to suppliers	(210,007)
Cash paid to employees	(370,975)
Other cash payments	(70,587)
	<hr/>
Net cash (used) by operating activities	(333,191)
NONCAPITAL FINANCING ACTIVITIES	
Property tax receipts	1,477,155
	<hr/>
Net cash provided by noncapital financing activities	1,477,155
CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment for purchase of land	(75,000)
Payment for purchase of equipment	(16,349)
Payment on bonds	(150,000)
Interest expense	(10,553)
	<hr/>
Net cash (used) by capital and related financing activities	(251,902)
INVESTING ACTIVITIES	
Transfers to investment account	(794,336)
Interest revenue received	94,336
	<hr/>
Net cash (used) by investing activities	(700,000)
Net increase in cash	192,062
Cash - beginning of period	459,873
	<hr/>
Cash - end of period	\$ 651,935
	<hr/>
Reconciliation of net operating (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (358,927)
Adjustments to reconcile net operating (loss) to net cash (used) by operating activities:	
Depreciation expense	43,417
Changes in assets and liabilities:	
Receivables, net	(65,154)
Inventories	(2,282)
Accounts payable	49,918
Accrued liabilities	(163)
	<hr/>
Net cash (used) by operating activities	\$ (333,191)

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Nature of Business and Significant Accounting Policies

This summary of significant accounting policies of Eunice Special Hospital District (the District) is presented to assist in understanding the District's financial statements. These financial statements and notes are representations of the District's management and Board of Trustees who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature & History of Business

Eunice Special Hospital District is an entity of the State of New Mexico located in Lea County, New Mexico. The organization provides medical attention to the residents of Lea County and others who may require it, through the use of a modern clinic located in the City of Eunice.

On April 8, 2003, a Board of Trustees was appointed to begin the formation of the District.

On August 19, 2003, the City of Eunice donated land located at 1109 Main, Eunice, NM with a book value to the District of \$10,000. On November 1, 2003, the Andrews Clinic donated various assets to the District with a book value to the District of \$103,785.

On April 14, 2003, a mill levy election was held and the mill levy was approved for the tax years April 14, 2003 through June 30, 2007.

The financial statements of this organization conform to accounting principles generally accepted in the United States of America as applicable to a government hospital. The following is a summary of the more significant policies:

Reporting Entity:

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. GASB 39 provides additional guidance to determine whether certain organizations for which the District is not financially accountable should be reported as discretely presented component units based on the nature and significance of their relationship with the District. In applying the guidance promulgated by GASB 39, the District has concluded that there are no entities that should be reported as a component unit in the District's financial statements.

Fund Accounting:

Enterprise Funds: (Unrestricted Funds)

Unrestricted funds are used to account for operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Nature of Business and Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The unrestricted funds (enterprise funds) are accounted for using the full accrual basis of accounting. Their revenues are recognized when the related service is completed and billed. Property taxes are recognized as revenues in the year for which they are levied. Expenses are recorded when an item is utilized or a liability is incurred.

Operating and Non-operating Revenues:

Operating revenue includes activities that have the characteristics of exchange transactions, such as a) patient services and b) contracts and grants.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property taxes and investment income and exchange transactions, such as rental revenue. These revenue streams are recognized under GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Budgets and Budgetary Accounting:

Annual budgets of the District are prepared prior to June 1 and must be approved by the resolution of the Board, and submitted for approval by the State of New Mexico. Once the budget has been formally approved, any amendments must also be approved by the Board and the State. Line items within the budget may be over-expended; however, it is not legally permissible to over-expend the budget in total.

Budgeted amounts are as originally adopted, or as amended by the Board and approved by the State. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The schedule of budgeted revenues and expenditures presents comparisons of legally adopted budgets with actual data on a budgetary basis.

Cash and Cash Equivalents, and Investments:

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Immediate cash needs are met with resources deposited at the District's bank. The District has invested a portion of their cash with the New Mexico State Treasurer's Office short-term investment pool. Amounts invested with the State Treasurer are readily available to the District when needed and are recorded at cost which approximates fair value.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Nature of Business and Significant Accounting Policies (continued)

Inventory:

Inventory is valued at the lower of cost or market on a first-in, first-out method. Inventory consists of medical supplies held for use in operations or sale to patients.

Capital Assets:

Donated assets are recorded at their estimated value on the date donated. Capital assets such as equipment are defined as assets with a cost of more than \$5,000. Depreciation of all exhaustible capital assets is charged as an expense against operations. Information technology equipment, including software, is depreciated in accordance with NMAC 2.20.1.9 C (5). Depreciation has been provided over the estimated useful lives as follows:

Buildings	25-40 years
Improvements	10-35 years
Equipment and Software	5-20 years

The District's policy is to capitalize interest incurred during construction as part of the historical cost of capital.

Net Patient Service Revenue:

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

* Medicare – Outpatient care services rendered to Medicare program beneficiaries are paid at determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

* Medicaid – Outpatient care services rendered to Medicaid program beneficiaries are paid at determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Allowance for Receivables:

The allowance for doubtful accounts is maintained at a level which, in the administration's judgment, is sufficient to provide for possible losses in the collection of these accounts.

Tax Collections:

The Eunice Special Hospital District receives property taxes from the Treasurer of the County of Lea. The County serves as the intermediary collecting agency and remits the District's share of property tax collections to the District. The District does not maintain detailed records of property taxes receivable by the individual taxpayer.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Nature of Business and Significant Accounting Policies (continued)

By April 1 of each year, the County Assessor shall mail a notice to each property owner informing them of the net taxable value of the property, which has been valued for taxation purposes by the Assessor. By May 1 of each year, the property valuation protest period expires. Upon receipt of the property tax schedule, the County Treasurer shall prepare and mail property tax bills to either the owner of the property or any person other than the owner to whom the tax bill is sent. Tax bills shall be mailed no later than November 1 of each tax year.

Property taxes of less than ten dollars are payable to the County Treasurer in full, due on November 10, delinquent December 11 in the year in which the tax bill was prepared and mailed. Property taxes of ten dollars or more are payable to the County Treasurer in two equal installments, the first half is due November 10, delinquent December 11. The second installment is due April 10, delinquent May 11 of the following year.

Compensated Absences:

Vacation, personal, and sick days earned during the current contract year must be taken by December 31 of the following year. A total of 132 hours of paid time off per year may be accumulated by each full-time, permanent employee. Unused vacation days may be carried over to the next year. Upon termination employees will be paid accumulated vacation days. See Note I for accrual of vacation. However, no accrual will be made for sick days because accrued days are lost if not used in the current year or upon termination.

Encumbrances:

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

Use of FASB Pronouncements:

The Eunice Special Hospital District has elected to utilize alternative #2 under GASB #20. Under alternative #2, the governmental entities using proprietary fund accounting must follow (1) all GASB pronouncements and (2) all FASB Statements and Interpretations issued after November 30, 1989, APB Opinions, and ARB's, no matter when issued, except those that conflict with a GASB pronouncement.

Use of Estimates:

The District uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The significant estimates utilized are the allowance for uncollectible accounts, the estimated useful lives on property, plant and equipment, and estimated Medicare accounts receivable not billed at year end. Actual results could differ from those amounts.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - Nature of Business and Significant Accounting Policies (continued)

Restricted Assets

Restricted assets are assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE B - Cash and Cash Equivalents

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool and money market accounts. The District is also allowed to invest in the United States Government obligations; however, they have never taken this opportunity. All funds of the District must follow the above investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States Government, or by their departments or agencies, and which are either direct obligations of the State or the United States Government or are backed by the full faith and credit of those governments.

At June 30, 2007, the District's cash was \$651,935 in demand deposits. Of these balances \$100,000 was covered by federal depository insurance and \$453,659 was covered by collateral held in joint safekeeping by a third party.

Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for at least one half of the amount on deposit with the institution. The schedule listed below will meet the State Auditor's requirements in reporting the insured portion of the deposits.

	<u>June 30, 2007</u>
Demand and Interest Accounts	651,935
FDIC coverage	<u>(100,000)</u>
Total uninsured public funds	<u>\$ 551,935</u>

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - Cash and Cash Equivalents (continued)

	<u>June 30, 2007</u>
Collateral requirement:	
50% of regular accounts	\$ 275,967
Pledged security	<u>(453,659)</u>
(Excess) Collateralization	<u>\$ (177,692)</u>

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Authority, public unit deposits are funds owned by the District. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to them. The District does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$453,659 of the District’s bank balance of \$651,935 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name; \$98,276 of the District’s bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE C –Investments

As of June 30, 2007, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
State investment pool	< 182 days	\$ 2,331,180

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Quality Risk – State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices.

All investments purchased for the LGIP must be high quality, with a credit rating of A or better to ensure the highest level of safety; U.S. Governments securities are rated AAA and all commercial paper investments is A-1+. Also, the State Treasurer is required by law to have the overnight repurchase agreements secured by U.S. Government securities at 102%.

The investments are valued at fair value based on quoted market prices as of the valuation date.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE C – Investments (continued)

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments.

The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested.

Participation in the local government investment pool is voluntary.

The LGIP is rated as AAAM by Standard & Poor's, and the fund's WAM is 38 days as of June 30, 2007.

NOTE D—Accounts Receivable

The following is a summary of the accounts receivable:

	<u>June 30, 2007</u>
Patients	\$ 48,213
Property Tax Receivable	96,031
Medicare, Medicaid, Other Insurers	<u>100,858</u>
	245,102
Allowance for Uncollectible Accounts	<u>(45,921)</u>
Total	<u>\$ 199,181</u>

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE E – Capital Assets

The following is an analysis of the property, plant and equipment:

	June 30, 2006	Additions	Deletions	June 30, 2007
Land	\$ 10,000	\$ 75,000	\$ -	\$ 85,000
Building and Improvements	854,762	\$ 0	-	854,762
Equipment	135,504	\$ 16,349	-	151,853
Total Capital Assets	1,000,266	91,349	-	1,091,615
Less Accumulated Depreciation:				
Land	-	-	-	-
Building and Improvements	(32,875)	(21,917)	-	(54,792)
Equipment	(56,030)	(21,500)	-	(77,530)
Total Accumulated Depreciation	(88,905)	(43,417)	-	(132,322)
	\$ 911,361	\$ 47,932	\$ -	\$ 959,293

During fiscal year June 30, 2007, the District reported depreciation expense of \$43,417.

NOTE F - Long-Term Debt

General Obligation Bonds

The District issued general obligation bonds to provide funds for the construction of a clinic in the City of Eunice. Bonds outstanding at June 30, 2007 consist of the following issue:

General Obligation Bonds
 Series: September 1, 2003
 Original Issue: \$750,000
 Principal: August 1
 Interest: February 1 and August 1
 Rates: 1.75% to 2.75%

The Bonds shall constitute the general obligation of the District and shall be payable solely out of general (ad valorem) taxes which shall be levied against all taxable property in the District. The District is in compliance with all significant requirements of the bond covenant.

Long-term liability for the year ended June 30, 2007 was as follows:

	June 30, 2006	Additions	Reductions	June 30, 2007	Due Within One Year
General Obligation Bonds					
Series: September 1, 2003	\$ 480,000	\$ -	\$ (150,000)	\$ 330,000	\$ 165,000
Totals	\$ 480,000	\$ -	\$ (150,000)	\$ 330,000	\$ 165,000

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE F - Long-Term Debt (continued)

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2007, are as follows:

Year Ending June 30,	General Obligation Bonds 2003		
	Principal	Interest	Total debt service
2008	165,000	6,683	171,683
2009	165,000	2,269	167,269
	\$ 330,000	\$ 8,952	\$ 338,952

NOTE G - Retirement Plan

Employer Funded Plan

Effective October 2005, the Eunice Special Hospital District adopted an Internal Revenue Code Section 403(b) retirement plan. All full time employees are eligible to participate in the plan. The District matches employee contributions up to 5% of their gross salary. The employee contributions are 100% vested and after 6 months the employer contributions are 100% vested as well.

NOTE H - Insurance Coverage

The District will be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in a variety of insurance programs. Insurance coverage is purchased primarily through commercial carriers. Unemployment compensation is handled through a private carrier, and is funded by the District.

NOTE I - Compensated Absences

The District had a liability for accrued vacation as of June 30, 2007 as follows:

Accrued vacation - beginning of year	6,294
Additions	13,256
Deletions	13,781
Accrued vacation - end of year	<u>\$ 5,769</u>

Of the \$5,769 balance, \$3,000 is due within one year.

SUPPLEMENTAL INFORMATION

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF REVENUES AND EXPENSES BUDGET AND ACTUAL For the Year Ended June 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	Variance Positive (Negative)
REVENUES				
Property taxes	1,171,938	1,171,938	1,477,154	305,216
Charges for services	235,600	339,600	335,157	(4,443)
Investment earnings	30,916	70,916	94,336	23,420
Miscellaneous	-	-	-	-
Total revenues	1,438,454	1,582,454	1,906,647	324,193
EXPENSES				
Personnel services	421,000	495,000	370,975	124,025
Contractual services	37,000	44,300	37,179	7,121
Utilities	15,000	15,000	17,363	(2,363)
Repairs and maintenance	1,200	8,200	4,784	3,416
Other supplies and expenses	135,700	225,300	166,986	58,314
Insurance claims and expenses	78,620	96,720	70,587	26,133
Miscellaneous	61,200	88,700	477	88,223
Capital Outlay				
Land purchase	-	-	75,000	(75,000)
Equipment purchase	-	-	16,349	(16,349)
Total expenses	749,720	973,220	759,700	213,520
Revenues (under) over expenses	688,734	609,234	1,146,947	\$ 537,713
OTHER FINANCING SOURCES				
Prior year cash balance	459,873	459,873	-	
Total other financing sources	459,873	459,873	-	
Net change in fund balances	\$ 1,148,607	\$ 1,069,107	1,146,947	
Reconciliation to GAAP Basis:				
Depreciation expense			(43,417)	
Interest expense			(10,553)	
Bad debt expense			(16,779)	
Increase in property tax receivable			5,915	
Increase in accounts receivable			81,934	
Increase in investment interest receivable			4,920	
Increase in inventories			2,283	
Increase in fixed assets			91,350	
Increase in accounts payable			(49,917)	
Decrease in accrued liabilities			162	
Net change in fund balance			\$ 1,212,845	

The accompanying notes are an integral part of these statements.

OTHER SUPPLEMENTAL INFORMATION

**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2007**

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2007	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 884134 5/1/2036	<u>\$ 453,659</u>	Wells Fargo Bank California
Total		<u>\$ 453,659</u>	

The accompanying notes are an integral part of these statements.

SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2007

Name of Depository	Account Name	Account Type	Bank Balance	Reconciled Balance
Wells Fargo Bank NM	Operational	Checking	\$ 325,657	\$ 322,936
Wells Fargo Bank NM	Bond	Checking	<u>328,999</u>	<u>328,999</u>
Bank Total			<u>\$ 654,656</u>	<u>\$ 651,935</u>

The accompanying notes are an integral part of these statements.



JOHNSON, MILLER & CO.

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico

Midland, Texas

Odessa, Texas

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHERS MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Hector H. Balderas
New Mexico State Auditor
Eunice Special Hospital District Officials
Eunice, New Mexico

We have audited the basic financial statements of Eunice Special Hospital District (the District) as of and for the year ended June 30, 2007 and have issued our report thereon dated October 12, 2007. We also have audited the budgetary comparison statement presented as supplemental information as of and for the year ended June 30, 2007, as listed in the table of contents. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings to a significant deficiencies in internal control over financial reporting (07-1 through 07-4).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies listed above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

J. Anson, Miller & Co.

Hobbs, New Mexico
October 12, 2007

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2007

SCHEDULE REFERENCE NUMBER: 07-1

Inaccurate Bank Reconciliation

Condition:

The District did not have a properly prepared bank reconciliation as of June 30, 2007.

The District's operating account's bank statements close on the 15th of the month. The bank reconciliation is performed as of that date every month. The reconciliation for the period ending July 17, 2007 erroneously listed the general ledger balance as \$200,000 greater than the amount which was properly recorded in the general ledger.

Criteria:

The accounting records of the District should be reconciled to the bank and agree to balances reported in the financial statements of the District.

Reconciling items should be deposits and payments that will clear the bank in a reasonable amount of time, but did not clear the bank prior to the date of the reconciliation.

Effect:

The District's bank reconciliation does not support the balance reported in the financial statements.

Cause:

A cleared check was improperly voided in the District's accounting software; management did not know how to remove the voided item from the bank reconciliation.

Recommendation:

Request that the bank close their accounting cycle at the end of the month.

Perform paper reconciliations that agree the bank balance to the general ledger.

Management Response:

Manager will look into basic accounting and Quickbooks courses. More training on Quickbooks will solve this issue.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2007

SCHEDULE REFERENCE NUMBER: 07-2

Bank Card Transactions Recorded in Wrong Period

Condition:

Bank card transactions totaling \$298.07 that occurred before year-end were not recorded until the new fiscal year.

Criteria:

Transactions should be recorded in the proper period for accurate record-keeping

Effect:

Cash was overstated and expenses understated by \$298.07.

Cause:

Bank card transactions were not entered into the general ledger until the bank statement was received.

Recommendation:

All bank card transactions should be recorded on the day of occurrence.

Management Response:

Will contact the bank and request statements be issued at the end of the month. I will be able to reconcile on a monthly basis.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2007

SCHEDULE REFERENCE NUMBER: 07-3

Accounting records

Condition:

The District did not retain a copy of the Form 941 for the quarter ended September 30, 2006.

Criteria:

The District should maintain complete and accurate records of the activity, including regulatory filings, of the District.

Effect:

The District is unable to produce evidence of required filing.

Cause:

The Clinic Manager did not retain copies of the filing.

Recommendation:

Complete records should be maintained in an orderly filing system.

Management Response:

Manager will retain all copies of records. This finding will be corrected.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2007

SCHEDULE REFERENCE NUMBER: 07-4

Preparation of Financial Statements

Condition:

The financial statements and related disclosures are not being prepared by the District.

Criteria:

The District's system of internal control should include controls over financial statement preparation, including footnote disclosures.

Effect:

Insufficient controls over the preparation of financial statements and related disclosures limits the District's ability to prevent or detect a misstatement in its financial statements.

Cause:

The District does not have the personnel or time to prepare the financial statements and related disclosures.

Recommendation:

We recommend the District's management and personnel receive training on financial reporting.

Management Response:

This will be corrected during the 07/08 fiscal year. Management will look into training.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF CURRENT YEAR FINDINGS

June 30, 2007

FINANCIAL STATEMENT PRESENTATION

The financial statements of the Eunice Special Hospital District were prepared from the original books and records provided by the management of this entity by Johnson Miller & Co., CPA's. See the related finding at 07-4 on page 30.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF STATUS OF PRIOR FINDINGS

06-1

Accounts receivable records not updated when presented to the auditor.

Finding resolved and not repeated in current year.

06-2

Actual expenditures exceeded budgeted expenditures, in violation of State Audit Rule 2.2.2.10P.

Finding resolved and not repeated in current year.

EUNICE SPECIAL HOSPITAL DISTRICT

OTHER DISCLOSURES

For the year ended June 30, 2007

EXIT CONFERENCE

An exit conference was conducted on October 12, 2007 in which the contents of this report were discussed. The following persons were in attendance:

Barbara Durham	Clinic Manager
Maurice Hughes	Board Member
Mary Hinds, CPA	Audit Manager

