

**EUNICE SPECIAL HOSPITAL DISTRICT**

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FINANCIAL STATEMENTS  
with  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2009

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**JOHNSON, MILLER & CO.**

*Certified Public Accountants  
A Professional Corporation*

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*An Independent Member of BDO Seidman Alliance*

**EUNICE SPECIAL HOSPITAL DISTRICT**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2009

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**DISTRICT OFFICIALS**

**June 30, 2009**

**DISTRICT BOARD OF TRUSTEES**

Lucille Kellum	Chairman
Glen Jenkins	Vice Chairman
Barbara Baggett	Secretary
Pam Fisher	Treasurer
Billy Thrash	Member
Meagan Powell	Clinic Manager



# 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, 2009, 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, 2009, 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 with 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, 2009, 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, 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009 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 and is not a required part of the financial statements. 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 15, 2009

## 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, 2009 and June 30, 2008. This information is presented in conjunction with audited financial statements that follow this section.

### Financial Highlights

- The District's total assets increased by \$721,233 and total liabilities decreased by \$400,692, resulting in total net assets increasing \$1,121,925.
- The District's operating expenses in fiscal year 2008 were \$1,146,867.
- As of the close of the current fiscal year, the District reported ending net assets of \$6,056,059.
- There was \$789,286 of revenue generated from charges for services.
- Investment income decreased by \$78,050.

### 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 statement of cash flows* reports the cash effects during the fiscal year of the District's operations, its noncapital financing transactions, its capital and related financing transactions, and its investing transactions.

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 the 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 in 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 \$1,452,122
- Investment income \$29,653

#### **Business-type activities**

- Revenue from charges for services \$789,286

### 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**

	<b>FY 2009</b>	<b>FY 2008</b>	<b>Total Change</b>
Current and Other Assets	\$3,952,212	\$3,758,719	\$193,493
Capital Assets	2,167,540	1,639,800	527,740
<b>Total Assets</b>	<b>\$6,119,752</b>	<b>\$5,398,519</b>	<b>\$721,233</b>
Current Liabilities	62,671	461,091	(398,420)
Non-Current Liabilities	1,022	3,294	(2,272)
<b>Total Liabilities</b>	<b>\$63,693</b>	<b>\$464,385</b>	<b>\$(400,692)</b>
Invested in capital assets, net of related debt	2,167,540	1,474,800	692,740
Unrestricted	3,888,519	3,459,334	429,185
<b>Total Net Assets</b>	<b>\$6,056,059</b>	<b>\$4,934,134</b>	<b>\$1,121,925</b>



## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Net Assets (continued)

As can be seen from the table on the previous page, net assets increased \$1,121,925 to \$6,056,059 in fiscal year 2009 from \$4,934,134 in fiscal year 2008. Increased charges for services and improved receivable quality led to a higher current asset balance; the expansion of clinic facilities and the purchase of additional equipment led to an increased capital asset balance; and decreases in amounts payable to vendors and the repayment of long-term debt decreased liabilities. These effects combined to increase net assets.

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

	<b>FY 2009</b>	<b>FY 2008</b>	<b>Dollar Change</b>
Operating Revenues	\$789,286	\$722,085	\$67,201
Non-Operating Revenues	1,479,506	1,633,315	(153,809)
<b>Total Revenues</b>	<b>\$2,268,792</b>	<b>\$2,355,400</b>	<b>\$(86,608)</b>
Depreciation Expense	88,542	52,506	36,036
Other Operating Expenses	1,058,325	1,135,638	(77,313)
<b>Total Expenses</b>	<b>\$1,146,867</b>	<b>\$1,188,144</b>	<b>\$(41,277)</b>
Change in Net Assets	\$1,121,925	\$1,167,256	\$(45,331)
Beginning Net Assets	4,934,134	3,766,878	1,167,256
<b>Ending Net Assets</b>	<b>\$6,056,059</b>	<b>\$4,934,134</b>	<b>\$1,121,925</b>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement 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 \$67,201.

Operating revenues increased slightly from 2008 to 2009 because of the increase of patients seen in the clinic and an increase in demand for contract drug testing services in local industries.

Operating expenses decreased, due mainly to a decrease in bad debt expense in the current year. Uncollectible receivables on the books in the prior year required a large allowance for bad debts and a large bad debt expense. These receivables are no longer outstanding, resulting in a decreased allowance and expense for bad debts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Budgetary Highlights**

The District adopts an annual Operating Budget following public workshops and a public hearing. The Operating Budget includes proposed expenses and the means of financing them.

A fiscal year 2009 budget comparison and analysis is presented in Table A-4.

**Table A-4  
Budget vs. Actual  
Year Ended June 30, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Property Taxes	\$1,300,000	\$1,300,000	\$1,525,213	\$225,213
Charges for Services	443,000	443,000	477,749	34,749
Investment Earnings	75,000	75,000	39,097	(35,903)
Miscellaneous	-	-	11,450	11,450
<b>Total Revenues</b>	<b>\$1,818,000</b>	<b>\$1,818,000</b>	<b>\$2,053,509</b>	<b>\$235,509</b>
<b>Expenses</b>				
Personnel Services	552,500	552,500	589,703	(37,203)
Contractual Services	127,000	127,000	101,812	25,188
Utilities	32,000	32,000	26,344	5,656
Repairs and Maintenance	75,000	75,000	8,799	66,201
Other Supplies & Expenses	287,000	287,000	161,758	125,242
Insurance Claims & Expenses	133,000	133,000	114,716	18,284
Misc. Expenses	-	-	3,616	(3,616)
<b>Capital Outlay</b>				
Equipment purchase	350,000	350,000	151,715	198,285
Construction of buildings	400,000	400,000	741,622	(341,622)
<b>Total Expenses</b>	<b>\$1,956,500</b>	<b>\$1,956,500</b>	<b>\$1,900,085</b>	<b>\$56,415</b>
<b>Operating (Loss) Income</b>	<b>\$(138,500)</b>	<b>\$(138,500)</b>	<b>\$153,424</b>	<b>\$291,924</b>

The variances in the revenue amounts within the final budget to actual are the result of the Board of Trustee's conservative revenue budgeting. However, rates on the LGIP investment fund decreased more dramatically than anticipated. The variances within the expense amounts also display the Board's conservative budgeting, although personnel costs were higher than expected due to the addition of a provider, and cash paid for construction of the new Clinic was higher than expected.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Capital Assets**

**Table A-5  
Capital Assets**

	<b>FY 2009</b>	<b>FY 2008</b>	<b>Dollar Change</b>
Equipment and software	\$326,561	\$186,296	\$140,265
Building and improvements	2,016,760	854,762	1,161,998
Land	85,000	85,000	-
Construction in progress	-	694,704	(694,704)
Less Accumulated Depreciation	(260,781)	(180,962)	(79,819)
<b>Total Capital Assets</b>	<b>\$2,167,540</b>	<b>\$1,639,800</b>	<b>\$527,740</b>

The District completed the construction of the Clinic addition and of the separate location for drug-testing services during the 2009 fiscal year.

**Debt**

**Table A-6  
Debt**

	<b>FY 2009</b>	<b>FY 2008</b>	<b>Dollar Change</b>
Bonds payable, current portion	\$-	\$165,000	\$(165,000)
Bonds payable, long-term portion	-	-	-
<b>Total Debt</b>	<b>\$-</b>	<b>\$165,000</b>	<b>\$(165,000)</b>

As seen in the table above, the District completed repayment of its outstanding debt during the fiscal year ended June 30, 2009. The issuance of new debt is not anticipated at this time.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Board of Trustees of the District considered many factors when setting the fiscal year 2010 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 Meagan Powell, Clinic 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, 2009

### ASSETS

#### CURRENT ASSETS

Cash and cash equivalents (NOTE B)	\$ 271,506
Investments (NOTE C)	3,177,981
Accounts receivable, net (NOTE D)	478,056
Other receivables	615
Inventories	24,054

**Total current assets** 3,952,212

#### NON-CURRENT ASSETS

Property, plant and equipment (NOTE E)	2,167,540
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**Total non-current assets** 2,167,540

**TOTAL ASSETS** 6,119,752

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES

Accounts payable	32,154
Payroll liabilities	27,517
Compensated absences (NOTE I)	3,000

**Total current liabilities** 62,671

#### NON-CURRENT LIABILITIES

Compensated absences (NOTE I)	1,022
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**Total non-current liabilities** 1,022

**TOTAL LIABILITIES** 63,693

#### NET ASSETS

Invested in capital assets, net of related debt	2,167,540
Unrestricted	3,888,519

**TOTAL NET ASSETS** \$ 6,056,059

*The accompanying notes are an integral part of these statements.*

# EUNICE SPECIAL HOSPITAL DISTRICT

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

	Year Ended June 30, 2009
<b>OPERATING REVENUES</b>	
Charges for services	\$ 789,286
<b>Total operating revenues</b>	<b>789,286</b>
<b>OPERATING EXPENSES</b>	
Personnel services	596,186
Contractual services	101,812
Utilities	26,344
Repairs and maintenance	8,799
Other supplies and expenses	190,164
Bad debt expense	20,305
Insurance claims and expenses	114,715
Depreciation	88,542
<b>Total operating expenses</b>	<b>1,146,867</b>
<b>Operating (loss)</b>	<b>(357,581)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Property taxes	1,452,122
Interest income	29,653
Interest expense	(2,269)
<b>Total non-operating revenues (expenses)</b>	<b>1,479,506</b>
<b>Increase in net assets</b>	<b>1,121,925</b>
<b>Total net assets - beginning of period</b>	<b>4,934,134</b>
<b>Total net assets - end of period</b>	<b>\$ 6,056,059</b>

The accompanying notes are an integral part of these statements.

# EUNICE SPECIAL HOSPITAL DISTRICT

## STATEMENT OF CASH FLOWS Proprietary Funds

	Year Ended <u>June 30, 2009</u>
<b>OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 457,445
Cash paid to suppliers	(571,662)
Cash paid to employees	(589,703)
Other cash payments	<u>(114,718)</u>
<b>Net cash (used) by operating activities</b>	<b>(818,636)</b>
<b>NONCAPITAL FINANCING ACTIVITIES</b>	
Property tax receipts	<u>1,525,212</u>
<b>Net cash provided by noncapital financing activities</b>	<b>1,525,212</b>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payment for purchase of equipment	(151,715)
Payment for construction in progress	(467,294)
Payment on bonds	(165,000)
Interest expense	<u>(2,269)</u>
<b>Net cash (used) by capital and related financing activities</b>	<b>(786,278)</b>
<b>INVESTING ACTIVITIES</b>	
Transfer from investment account	200,000
Transfers to investment account	<u>(400,000)</u>
<b>Net cash (used) by investing activities</b>	<b>(200,000)</b>
<b>Net decrease in cash</b>	<b>(279,702)</b>
<b>Cash - beginning of period</b>	<u><b>551,208</b></u>
<b>Cash - end of period</b>	<u><b>\$ 271,506</b></u>
<b>Reconciliation of net operating (loss) to net cash (used) by operating activities</b>	
Operating (loss)	\$ (357,581)
Adjustments to reconcile net operating (loss) to net cash (used) by operating activities:	
Depreciation expense	88,542
Non-cash donation of capital assets	2,726
Changes in assets and liabilities:	
Receivables, net	(311,537)
Inventories	(5,094)
Accounts payable	(242,176)
Accrued liabilities	<u>6,484</u>
<b>Net cash (used) by operating activities</b>	<u><b>\$ (818,636)</b></u>

The accompanying notes are an integral part of these statements.

# **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 March 13, 2007, a mill levy election was held and was approved for the tax years July 1, 2008 through June 30, 2011.

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 the cash basis, which is not in accordance 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. The District has also invested in CD's with maturities of greater than 3 months at local banks.



# 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 per section 12-6-10 NMSA 1978. 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. Construction in progress is not depreciated until the capital assets are placed into service.

#### 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 of 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)

#### Net Assets:

*Invested in capital assets, net of related debt* include net restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted net assets* consist of net assets that do not meet the definition of "invested in capital assets, net of related debt."

*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, 2009, the District's cash consisted of \$289,767 in demand deposits. Of these balances, \$250,000 was covered by federal depository insurance and \$39,767 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.

# EUNICE SPECIAL HOSPITAL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE B - Cash and Cash Equivalents (continued)

	<u>June 30, 2009</u>
Demand and Interest Accounts	\$ 289,767
FDIC coverage	<u>(250,000)</u>
<b>Total uninsured public funds</b>	<b><u>\$ 39,767</u></b>

  

	<u>June 30, 2009</u>
Collateral requirement: 50% of regular accounts	\$ 19,884
Pledged security held by pledging bank's trust department or agent but not in the District's name	<u>(333,414)</u>
<b>(Excess) Collateralization</b>	<b><u>\$ (313,530)</u></b>

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 \$250,000 in aggregate and separate from the \$250,000 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, 2009, \$39,767 of the District's bank balance of \$289,767 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.

### NOTE C – Investments

As of June 30, 2009, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
State Investment Pool	< 182 days	\$ 2,777,981
Certificate of Deposit	180 days	200,000
Certificate of Deposit	360 days	<u>200,000</u>
<b>Total</b>		<b><u>\$ 3,177,981</u></b>

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

# EUNICE SPECIAL HOSPITAL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE C –Investments (continued)

Concentration of Credit Risk – Concentration of credit risk exists when an agency has investments in any one issuer that represent five percent or more of total investments of the agency. The District does not have a formal investment policy that limits its exposure to concentrations of credit risk. The District is exposed to concentrations of credit risk arising from its investments in certificates of deposit at local banks. Each certificate of deposit held represents approximately 6.3% of total investments. These certificates of deposit were fully insured by the FDIC at June 30, 2009.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

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 43 days as of June 30, 2009.

**EUNICE SPECIAL HOSPITAL DISTRICT****NOTES TO THE FINANCIAL STATEMENTS****NOTE D—Accounts Receivable**

The following is a summary of the accounts receivable:

	<u>June 30, 2009</u>
Patients	\$ 113,449
Property Tax Receivable	45,645
Medicare, Medicaid, Other Insurers	375,184
Contract Services	<u>27,638</u>
	561,916
Allowance for Uncollectible Accounts	<u>(83,860)</u>
<b>Total</b>	<b><u>\$ 478,056</u></b>

**NOTE E – Capital Assets**

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

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
<u>Depreciable Capital Assets</u>				
Building and Improvements	\$ 854,762	\$ 1,161,998	\$ -	\$ 2,016,760
Equipment and Software	<u>186,296</u>	<u>151,715</u>	<u>(11,450)</u>	<u>326,561</u>
Total Depreciable Capital Assets	1,041,058	1,313,713	(11,450)	2,343,321
Less Accumulated Depreciation:				
Building and Improvements	(76,709)	(40,000)	-	(116,709)
Equipment and Software	<u>(104,253)</u>	<u>(48,542)</u>	<u>8,723</u>	<u>(144,072)</u>
Total Accumulated Depreciation	(180,962)	(88,542)	8,723	(260,781)
<u>Nondepreciable Capital Assets</u>				
Land	85,000	-	-	85,000
Construction in Progress	<u>694,704</u>	<u>467,294</u>	<u>1,161,998</u>	<u>-</u>
Total Nondepreciable Capital Assets	779,704	467,294	1,161,998	85,000
Total Capital Assets	<b><u>\$ 1,639,800</u></b>	<b><u>\$ 1,692,465</u></b>	<b><u>\$ 1,159,271</u></b>	<b><u>\$ 2,167,540</u></b>

During fiscal year June 30, 2009, the District reported depreciation expense of \$88,542.

# EUNICE SPECIAL HOSPITAL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### 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 and paid off during the fiscal year ended June 30, 2009 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%

Long-term liability for the year ended June 30, 2009 was as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
General Obligation Bonds					
Series: September 1, 2003	\$ 165,000	\$ -	\$ (165,000)	\$ -	\$ -
<b>Totals</b>	<b>\$ 165,000</b>	<b>\$ -</b>	<b>\$ (165,000)</b>	<b>\$ -</b>	<b>\$ -</b>

### NOTE G - Retirement Plan

#### Employer Funded Plan

Effective October 2005, the Eunice Special Hospital District adopted a defined contribution retirement plan under Internal Revenue Code Section 403(b) with the Variable Annuity Life Insurance Company (VALIC). 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. Contributions to the retirement plan for the year ended June 30, 2009 totaled \$28,372, which consisted of \$14,186 contributed by both the employer and employees.

### 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.

# **EUNICE SPECIAL HOSPITAL DISTRICT**

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE I - Compensated Absences**

The District had a liability for accrued vacation as of June 30, 2009 as follows:

<b>Accrued vacation - beginning of year</b>	<b>\$ 6,294</b>
Additions	15,670
Deletions	17,942
<b>Accrued vacation - end of year</b>	<b><u>\$ 4,022</u></b>

Of the \$4,022 balance, an estimated \$3,000 is due within one year.

### **NOTE J – Contingent Liability**

The District is not in compliance with requirements for filing certain reports with the Centers for Medicare and Medicaid Services related to reimbursements for Medicare and Medicaid services. In addition, the District's Medicare Part A provider number has been deactivated for non-filing of reports. This has resulted in the suspension of Medicare and Medicaid payments to the District. The District is in the process of collecting data to file the required reports for the periods from the inception of the District through the fiscal year ended June 30, 2009.

It is probable that the District will be required to remit payment to the Centers for Medicare and Medicaid Services after the filing of the late reports. However, an estimate of the possible losses associated with any required payment, plus penalties and interest, cannot be made at this time.



**SUPPLEMENTAL INFORMATION**

# EUNICE SPECIAL HOSPITAL DISTRICT

## SCHEDULE OF REVENUES AND EXPENSES BUDGET AND ACTUAL For the Year Ended June 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	Variance Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,525,213	\$ 225,213
Charges for services	443,000	443,000	477,749	34,749
Investment earnings	75,000	75,000	39,097	(35,903)
Miscellaneous	-	-	11,450	11,450
<b>Total revenues</b>	<b>\$ 1,818,000</b>	<b>\$ 1,818,000</b>	<b>\$ 2,053,509</b>	<b>\$ 235,509</b>
<b>EXPENSES</b>				
Personnel services	552,500	552,500	589,703	(37,203)
Contractual services	127,000	127,000	101,812	25,188
Utilities	32,000	32,000	26,344	5,656
Repairs and maintenance	75,000	75,000	8,799	66,201
Other supplies and expenses	287,000	287,000	161,758	125,242
Insurance claims and expenses	133,000	133,000	114,716	18,284
Miscellaneous	-	-	3,616	(3,616)
Capital Outlay				
Equipment purchase	350,000	350,000	151,715	198,285
Construction of buildings	400,000	400,000	741,622	(341,622)
<b>Total expenses</b>	<b>\$ 1,956,500</b>	<b>\$ 1,956,500</b>	<b>\$ 1,900,085</b>	<b>\$ 56,415</b>
<b>Revenues over expenses</b>	<b>\$ (138,500)</b>	<b>\$ (138,500)</b>	<b>\$ 153,424</b>	<b>\$ 291,924</b>
<b>OTHER FINANCING SOURCES</b>				
Prior year cash balance	551,208	551,208	-	
<b>Total other financing sources</b>	<b>\$ 551,208</b>	<b>\$ 551,208</b>	<b>-</b>	
<b>Net change in fund balances</b>	<b>\$ 412,708</b>	<b>\$ 412,708</b>	<b>153,424</b>	
<b>Reconciliation to GAAP Basis:</b>				
Depreciation expense			(88,542)	
Bad debt expense			(20,305)	
Decrease in property tax receivable			(73,091)	
Increase in accounts receivable			311,537	
Decrease in investment interest receivable			(9,444)	
Increase in inventories			5,094	
Increase in fixed assets			607,560	
Decrease in accounts payable			242,176	
Increase in accrued liabilities			(6,484)	
<b>Net change in fund balance</b>			<b>\$ 1,121,925</b>	

The accompanying notes are an integral part of these statements.

**OTHER SUPPLEMENTAL INFORMATION**

**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY  
FOR PUBLIC FUNDS  
June 30, 2009**

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2009	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 884134 5/1/2036	<u>\$ 333,414</u>	Wells Fargo Bank California
<b>Total</b>		<u><b>\$ 333,414</b></u>	

*The accompanying notes are an integral part of these statements.*

**SCHEDULE OF DEPOSIT ACCOUNTS**  
**June 30, 2009**

<b>Name of Depository</b>	<b>Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Reconciled Balance</b>
Wells Fargo Bank NM	Operational	Checking	\$ 287,272	\$ 268,911
Wells Fargo Bank NM	Bond	Checking	2,495	2,495
Depository Cash Total			289,767	271,406
Cash on Hand			-	100
<b>Cash Total</b>			<b>\$ 289,767</b>	<b>\$ 271,506</b>
Lea County State Bank	Eunice Special Hospital District	CD	\$ 200,000	\$ 200,000
Pioneer Bank	Eunice Special Hospital District	CD	200,000	200,000
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	2,712,158	2,712,158
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	65,823	65,823
<b>Investments Total</b>			<b>\$ 3,177,981</b>	<b>\$ 3,177,981</b>

*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 OTHER 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, 2009 as listed in the table of contents, and have issued our report thereon dated October 15, 2009. We also have audited the budgetary comparison statement presented as supplemental information as of and for the year ended June 30, 2009, 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 be significant deficiencies in internal control over financial reporting (07-1, 07-4, and 08-1).

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, of the significant deficiencies listed above, we consider items 07-1 and 08-1 to be 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 one instance of noncompliance or another matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 09-1.

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 management, others within the entity, the Board of Trustees, the State Auditor, the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

*Johnson, Miller & Co.*

Hobbs, New Mexico  
October 15, 2009

**EUNICE SPECIAL HOSPITAL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2009**

**SCHEDULE REFERENCE NUMBER: 07-1**

**Bank Reconciliation**

Condition:

The District's checking account was not reconciled monthly. One reconciliation covering an 11-month period was provided for the audit. The reconciliation contained material improper reconciling items and a materially incorrect ending cash balance.

Criteria:

Accurate monthly reconciliations are needed to provide control over cash accounts and improve asset accountability.

Effect:

The District was not able to identify a material misstatement to cash in a timely manner.

Cause:

Reconciliations were not prepared monthly due to time constraints. The improper reconciling items and misstated ending balance were caused by errors carried over from prior years and by the improper handling of deposits that cleared the bank.

Recommendation:

An accurate bank reconciliation should be prepared monthly resulting in improved control over cash.

Management Response:

Several incorrect journal entries and numerous discrepancies in transactions from prior years did not allow a proper reconciliation to be performed. Bank reconciliations will be performed on a monthly basis and presented to the Board of Trustees.



**EUNICE SPECIAL HOSPITAL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2009**

**SCHEDULE REFERENCE NUMBER: 07-4**

**Preparation of Financial Statements**

Condition:

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

Criteria:

Per SAS 112, 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:

Management has received, and will continue to receive, training on the new software to ensure that proper financial statements will be prepared in the future.

**EUNICE SPECIAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

**SCHEDULE REFERENCE NUMBER: 08-1**

**Accounting Records**

Condition:

Revenues, expenses and cash were materially misstated when the accounting records were presented to the auditors.

Criteria:

Accounting records should provide an accurate record of transactions and conditions affecting the entity.

Effect:

Material misstatements were discovered in the accounting records.

Cause:

Non-routine transactions and payments on long-term debt were not recorded properly.

Recommendation:

Management has changed software to a Peachtree accounting system effective July 1, 2009. We recommend that management receive training on using Peachtree and on bookkeeping. We also recommend that written procedures be developed to ensure proper recording of transactions.

Management Response:

Discrepancies in the Quickbooks chart of accounts prevented the accurate recording of revenues and expenses. Management will produce and incorporate written procedures to ensure proper recording of transactions.

**EUNICE SPECIAL HOSPITAL DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2009**  
**SCHEDULE REFERENCE NUMBER: 09-1**

**Medicare/Medicaid Compliance Requirements**

Condition:

During the fiscal year ended June 30, 2009, it was discovered that the District has been filing Medicare and Medicaid claims under the physicians' Part B numbers instead of the Rural Health Clinic (RHC)'s Part A number and has not been filing the Cost Reports required of an RHC. As a result, the District's Part A number has been deactivated. The District is assembling information needed to file the delinquent reports.

Criteria:

Authority for the suspension of payments is provided for in 42 CFR 405.372. Per RHC506, the Cost Reports are due from RHC's within 5 days after the end of the following month, at the end of every fiscal year.

Effect:

The District is in violation of the related laws and regulations. As the reports have not been filed, and the computation of any applicable credit balance due to the Centers for Medicare and Medicaid Services (CMS) has not been calculated, the District may be required to remit payment for overpaid claims.

Cause:

The District's current management was not aware of the filing requirement. The District's prior management did not comply with the filing requirement.

Recommendation:

The District should file all delinquent reports as soon as possible and ensure that procedures are in place to permit the timely filing of reports in the future.

Management Response:

Management and the Board of Trustees were unaware of the issues with licensing and cost reports for Medicare and Medicaid. The Board has hired an outside consultant to correctly file the cost reports and to ensure that we are in compliance with CMS. We are in the process of reapplying for a Medicare Part A provider number.

**EUNICE SPECIAL HOSPITAL DISTRICT**  
**SCHEDULE OF CURRENT YEAR FINDINGS**

**June 30, 2009**

**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. Management is responsible for the contents of the report, even though the auditor prepared the financial statements. See the related finding at 07-4 on page 29.

**EUNICE SPECIAL HOSPITAL DISTRICT**

**SCHEDULE OF STATUS OF PRIOR FINDINGS**

07-1

Monthly reconciliations were not prepared. One reconciliation was prepared for the period from August 1, 2008 to June 20, 2009. This reconciliation contained material improper reconciling items. Management has not received training in bookkeeping or accounting and does not prepare proper reconciliations. Management has received training in using accounting software.

Modified and repeated at 07-1.

07-4

The District's accounting personnel do not have the requisite knowledge or experience to draft the financial statements. The District's internal controls do not include controls over the preparation of financial statements. In addition, the accounting records were materially misstated when they were provided to the auditors. The current Clinic Manager has not received any training in bookkeeping or accounting.

Repeated at 07-4.

08-1

After journal entries proposed by the client were made, accounts receivable and payable were not materially misstated. Revenues, expenses, and cash were materially misstated and required material adjustments during the course of the audit.

Modified and repeated at 08-1.

08-2

During testwork, it was noted that daily deposits are being made. No problems with deposits were noted. No allegations of improper use of funds were brought to our attention, and no indications of fraud were noted.

Finding resolved and not repeated in current year.

08-3

The budget for the fiscal year ended June 30, 2009 was not overexpended.

Finding resolved and not repeated in the current year.

08-4

No dispositions of assets falling under State Audit Rule 2.2.2.10V were noted in the fiscal year ended June 30, 2009.

Finding resolved and not repeated in the current year.

**EUNICE SPECIAL HOSPITAL DISTRICT**

**SCHEDULE OF STATUS OF PRIOR FINDINGS**

08-5

Excessively old receivables were removed from the billing and accounting systems during the current year. During testwork, no receivables for amounts arising before the current fiscal year were noted.

Finding resolved and not repeated in the current year.

**EUNICE SPECIAL HOSPITAL DISTRICT**

**OTHER DISCLOSURES**

For the year ended June 30, 2009

**EXIT CONFERENCE**

An exit conference was conducted on October 15, 2009 in which the contents of this report were discussed. The following persons were in attendance:

Meagan Powell	Clinic Manager
Barbara Baggett	Member, Board of Trustees
Mary Hinds, CPA	Audit Partner
Gwen Raley	Senior In-Charge Auditor