

EUNICE SPECIAL HOSPITAL DISTRICT

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2010



JOHNSON, MILLER & CO.

Certified Public Accountants
A Professional Corporation

An Independent Member of BDO Seidman Alliance

EUNICE SPECIAL HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Year Ended June 30, 2010

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DISTRICT OFFICIALS

June 30, 2010

DISTRICT BOARD OF TRUSTEES

Lucille Kellum	Chairman
Glen Jenkins	Vice Chairman
Barbara Baggett	Secretary
Pam Fisher	Treasurer
Billy Thrash	Member



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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 were engaged to audit the accompanying basic financial statements of Eunice Special Hospital District (the District), as of and for the year ended June 30, 2010, as listed in the table of contents. We were also engaged to audit the budgetary comparison statement presented as supplemental information for the year ended June 30, 2010, 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.

The District's accounting records as of and for the year ended June 30, 2010 were not sufficient to audit. Due to limited accounting records, we were unable to apply auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The amount by which these departures would affect the revenues and expenses of the funds is not reasonably determinable.

Because of the District's insufficient accounting records as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows as of and for the year ended June 30, 2010 which comprise the District's basic financial statements as listed in the table of contents. In addition, because of the District's insufficient accounting records, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the budgetary comparison statement presented as supplementary information in the accompanying basic financial statements of Eunice Special Hospital District as of and for the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011 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 audited, but the scope of our work was not sufficient to enable us to express, and we do not express an opinion in relation to the financial statements taken as a whole.

Johnson, Miller & Co.

Hobbs, New Mexico
March 15, 2012

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, 2010 and June 30, 2009. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The District's total assets increased by \$633,541 and total liabilities decreased by \$28,022, resulting in total net assets increasing \$661,563.
- The District's operating expenses in fiscal year 2010 were \$1,191,912.
- As of the close of the current fiscal year, the District reported ending net assets of \$6,717,622.
- There was \$513,084 of revenue generated from charges for services during the fiscal year ended June 30, 2010.
- Investment income decreased by \$21,659.

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 \$1,332,397
- Investment income \$7,994

Business-type activities

- Revenue from charges for services \$513,084

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 2010	FY 2009	Total Change
Current and Other Assets	\$4,624,397	\$3,952,212	\$672,185
Capital Assets	2,128,896	2,167,540	(38,644)
Total Assets	\$6,753,293	\$6,119,752	\$633,541
Current Liabilities	34,956	62,671	(27,715)
Non-Current Liabilities	715	1,022	(307)
Total Liabilities	\$35,671	\$63,693	\$(28,022)
Invested in capital assets, net of related debt	2,128,896	2,167,540	(38,644)
Unrestricted	4,588,726	3,888,519	700,207
Total Net Assets	\$6,717,622	\$6,056,059	\$661,563

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Assets (continued)

As can be seen from the table on the previous page, net assets increased \$661,563 to \$6,717,622 in fiscal year 2010 from \$6,056,059 in fiscal year 2009. An increased cash balance and improved receivable quality led to a higher current asset balance which affects the increase in net assets.

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

	FY 2010	FY 2009	Dollar Change
Operating Revenues	\$513,084	\$789,286	\$(276,202)
Non-Operating Revenues	1,340,391	1,479,506	(139,115)
Total Revenues	1,853,475	2,268,792	(415,317)
Depreciation Expense	103,006	88,542	14,464
Other Operating Expenses	1,088,906	1,058,325	30,581
Total Expenses	1,191,912	1,146,867	45,045
Change in Net Assets	661,563	1,121,925	(460,362)
Beginning Net Assets	6,056,059	4,934,134	1,121,925
Ending Net Assets	\$6,717,622	\$6,056,059	\$661,563

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 decreased by \$276,202. Operating revenues decreased from 2009 to 2010 as a result of a decrease in not only the number of patients seen but also a change in types of patients seen, i.e. types of treatments and procedures patients required.

Operating expenses were increased for this same period as a result of the increased size of the clinic and the addition of a provider and other personnel.

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 2010 budget comparison and analysis is presented in Table A-3.

**Table A-3
Budget vs. Actual
Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual	Variance
Revenues				
Property Taxes	\$1,488,109	\$1,488,109	\$1,300,196	\$(187,913)
Charges for Services	437,000	437,000	644,882	207,882
Investment Earnings	-	-	7,994	7,994
Total Revenues	\$1,925,109	\$1,925,109	\$1,953,072	\$27,963
Expenses				
Personnel Services	809,000	809,000	635,149	173,851
Contractual Services	130,000	130,000	141,250	(11,250)
Utilities	33,000	33,000	46,150	(13,150)
Repairs and Maintenance	50,000	50,000	64,540	(14,540)
Other Supplies & Expenses	196,500	196,500	178,347	18,153
Insurance Claims & Expenses	150,000	150,000	88,183	61,817
Capital Outlay				
Equipment purchase	150,000	150,000	64,362	85,638
Total Expenses	\$1,518,500	\$1,518,500	\$1,217,981	\$300,519
Operating Income	\$406,609	\$406,609	\$735,091	\$328,482

Variances in budget and actual tax revenues were a result in the diminished price of oil during this time period. A great majority of the tax revenue for the District is dependent on the oil & gas industry.

Although patient revenue was down from the previous year, it was greater than anticipated when the budget was constructed based on conservative estimates from the Board of Trustees.

This report shows interest revenue from the Districts LGIP investment, this revenue is not used in the general fund. It is reinvested and continues to be part of our other cash asset.

On the expense side, the negative variances are a result of adding 5,000 square feet to the clinic which resulted in more contractual services, utilities, and repairs and maintenance. The positive variances are a result of conservative estimates from the Board of Trustees.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

**Table A-4
Capital Assets**

	FY 2010	FY 2009	Dollar Change
Equipment and software	\$390,923	\$326,561	\$64,362
Building and improvements	2,016,760	2,016,760	-
Land	85,000	85,000	-
Less Accumulated Depreciation	(363,787)	(260,781)	(103,006)
Total Capital Assets	\$2,128,896	\$2,167,540	\$(38,644)

The District purchased new software during the 2010 fiscal year.

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 Maira Lujan, 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, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents (NOTE B)	\$	998,602
Investments (NOTE C)		3,185,975
Accounts receivable, net (NOTE D)		378,458
Other receivables		3,115
Inventories		58,247

Total current assets 4,624,397

NON-CURRENT ASSETS

Property, plant and equipment (NOTE E)		2,128,896
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Total non-current assets 2,128,896

TOTAL ASSETS

\$ 6,753,293

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	26,441
Payroll liabilities		6,967
Compensated absences (NOTE H)		1,548

Total current liabilities 34,956

NON-CURRENT LIABILITIES

Compensated absences (NOTE H)		715
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Total non-current liabilities 715

TOTAL LIABILITIES

35,671

NET ASSETS

Invested in capital assets, net of related debt		2,128,896
Unrestricted		4,588,726

TOTAL NET ASSETS 6,717,622

TOTAL LIABILITIES AND NET ASSETS

\$ 6,753,293

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**

	<u>Year Ended</u> <u>June 30, 2010</u>
OPERATING REVENUES	
Charges for services	\$ 513,084
Total operating revenues	513,084
OPERATING EXPENSES	
Personnel services	610,340
Contractual services	141,250
Other supplies and expenses	138,443
Depreciation	103,006
Insurance claims and expenses	88,183
Repairs and maintenance	64,540
Utilities	46,150
Total operating expenses	1,191,912
Operating (loss)	(678,828)
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	1,332,397
Interest income	7,994
Total non-operating revenues (expenses)	1,340,391
Increase in net assets	661,563
Total net assets - beginning of period	6,056,059
Total net assets - end of period	\$ 6,717,622

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF CASH FLOWS

Proprietary Funds

	<u>Year Ended</u> <u>June 30, 2010</u>
OPERATING ACTIVITIES	
Cash receipts from customers	\$ 644,881
Cash paid to suppliers	(430,288)
Cash paid to employees	(635,150)
Other cash payments	(88,183)
Net cash (used) by operating activities	(508,738)
NONCAPITAL FINANCING ACTIVITIES	
Property tax receipts	1,300,196
Net cash provided by noncapital financing activities	1,300,196
CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment for purchase of equipment	(64,362)
Net cash (used) by capital and related financing activities	(64,362)
Net increase in cash	727,096
Cash - beginning of period	271,506
Cash - end of period	\$ 998,602
Reconciliation of net operating (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (678,828)
Adjustments to reconcile net operating (loss) to net cash (used) by operating activities:	
Depreciation expense	103,006
Changes in assets and liabilities:	
Receivables, net	131,798
Other receivables	(2,500)
Inventories	(34,193)
Accounts payable	(5,711)
Accrued liabilities	(22,310)
Net cash (used) by operating activities	\$ (508,738)

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:

Proprietary Fund Type: This fund type applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 that are not in conflict with applicable GASB pronouncements.

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, 2010, the District's cash consisted of \$1,003,922 in demand deposits. This entire balance was covered by federal depository insurance and \$677,670 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, 2010</u>
Demand and Interest Accounts	\$ 1,003,922
FDIC coverage	<u>(1,003,922)</u>
Total uninsured public funds	<u>\$ -</u>
	<u>June 30, 2010</u>
Collateral requirement: 50% of regular accounts	\$ -
Pledged security held by pledging bank's trust department or agent but not in the District's name	<u>(677,670)</u>
(Excess) Collateralization	<u>\$ (677,670)</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 \$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, 2010, \$- of the District's bank balance of \$1,003,922 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, 2010, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
State Investment Pool	< 182 days	\$ 2,782,140
Certificate of Deposit	180 days	201,463
Certificate of Deposit	360 days	<u>202,372</u>
Total		<u>\$ 3,185,975</u>

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, 2010.

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 50 days as of June 30, 2010.

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, 2010</u>
Patients	\$ 113,294
Property Tax Receivable	77,845
Medicare, Medicaid, Other Insurers	<u>271,179</u>
	462,318
Allowance for Uncollectible Accounts	<u>(83,860)</u>
Total	<u>\$ 378,458</u>

NOTE E – Capital Assets

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

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
<u>Depreciable Capital Assets</u>				
Building and Improvements	\$ 2,016,760	\$ -	\$ -	\$ 2,016,760
Equipment and Software	<u>326,561</u>	<u>64,362</u>	<u>-</u>	<u>390,923</u>
Total Depreciable Capital Assets	2,343,321	64,362	-	2,407,683
Less Accumulated Depreciation:				
Building and Improvements	(116,709)	(51,712)	-	(168,421)
Equipment and Software	<u>(144,072)</u>	<u>(51,294)</u>	<u>-</u>	<u>(195,366)</u>
Total Accumulated Depreciation	(260,781)	(103,006)	-	(363,787)
<u>Nondepreciable Capital Assets</u>				
Land	<u>85,000</u>	<u>-</u>	<u>-</u>	<u>85,000</u>
Total Nondepreciable Capital Assets	85,000	-	-	85,000
Total Capital Assets	<u>\$ 2,167,540</u>	<u>\$ (38,644)</u>	<u>\$ -</u>	<u>\$ 2,128,896</u>

During fiscal year June 30, 2010, the District reported depreciation expense of \$103,006.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE F - 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, 2010 totaled \$34,091, which consisted of \$17,046 contributed by both the employer and employees.

NOTE G - 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 H - Compensated Absences

The District had a liability for accrued vacation as of June 30, 2010 as follows:

Accrued vacation - beginning of year	\$ 4,022
Additions	8,163
Deletions	9,922
Accrued vacation - end of year	<u>\$ 2,263</u>

Of the \$2,263 balance, an estimated \$1,548 is due within one year.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF REVENUES AND EXPENSES BUDGET AND ACTUAL For the Year Ended June 30, 2010

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	Variance Positive (Negative)
REVENUES				
Property taxes	\$ 1,488,109	\$ 1,488,109	\$ 1,300,196	\$ (187,913)
Charges for services	437,000	437,000	644,882	207,882
Investment earnings	-	-	7,994	7,994
Total revenues	\$ 1,925,109	\$ 1,925,109	\$ 1,953,072	\$ 27,963
EXPENSES				
Personnel services	809,000	809,000	635,149	173,851
Contractual services	130,000	130,000	141,250	(11,250)
Utilities	33,000	33,000	46,150	(13,150)
Repairs and maintenance	50,000	50,000	64,540	(14,540)
Other supplies and expenses	196,500	196,500	178,347	18,153
Insurance claims and expenses	150,000	150,000	88,183	61,817
Capital Outlay				
Equipment purchase	150,000	150,000	64,362	85,638
Total expenses	\$ 1,518,500	\$ 1,518,500	\$ 1,217,981	\$ 300,519
Revenues over expenses	\$ 406,609	\$ 406,609	\$ 735,091	\$ 328,482
OTHER FINANCING SOURCES				
Prior year cash balance	271,506	271,506	-	
Total other financing sources	\$ 271,506	\$ 271,506		
Net change in fund balances	\$ 678,115	\$ 678,115	735,091	
Reconciliation to GAAP Basis:				
Depreciation expense			(103,006)	
Increase in property tax receivable			32,201	
Decrease in accounts receivable			(131,799)	
Increase in other receivables			2,500	
Increase in inventories			34,193	
Increase in fixed assets			64,362	
Decrease in accounts payable			5,711	
Decrease in accrued liabilities			22,310	
Net change in fund balance			\$ 661,563	

The accompanying notes are an integral part of these statements.

OTHER SUPPLEMENTAL INFORMATION

**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2010**

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2010	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 884134 5/1/2036	<u>\$ 677,670</u>	Wells Fargo Bank California
Total		<u>\$ 677,670</u>	

The accompanying notes are an integral part of these statements.

SCHEDULE OF DEPOSIT ACCOUNTS
June 30, 2010

Name of Depository	Account Name	Account Type	Bank Balance	Reconciled Balance
Wells Fargo Bank NM	Operational	Checking	\$ 1,003,922	\$ 997,502
Depository Cash Total			1,003,922	997,502
Cash on Hand			-	1,100
Cash Total			\$ 1,003,922	\$ 998,602
Lea County State Bank	Eunice Special Hospital District	CD	\$ 201,463	\$ 201,463
Pioneer Bank	Eunice Special Hospital District	CD	202,372	202,372
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	2,771,513	2,771,513
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	10,627	10,627
Investments Total			\$ 3,185,975	\$ 3,185,975

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 were engaged to audit the basic financial statements of Eunice Special Hospital District (the District) as of and for the year ended June 30, 2010, as listed in the table of contents, and have issued our report thereon dated March 15, 2012. We were also engaged to audit the budgetary comparison statement presented as supplemental information as of and for the year ended June 30, 2010, as listed in the table of contents.

The District's accounting records as of and for the year ended June 30, 2010 were not sufficient to audit. Due to limited accounting records, we were unable to apply auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The amount by which these departures would affect the revenues and expenses of the funds is not reasonably determinable.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above (08-01, 10-01, 10-02, 10-03, 10-04, 10-05, and 10-07). We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting (07-04 and 10-06). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or another matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 10-08, 10-09, 10-10, and 10-11.

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
March 15, 2012

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2010

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 personnel are currently receiving training in this area. Furthermore, the Board has engaged persons to oversee internal controls and financial reporting.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES**

YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 08-01

Accounting Records

Condition:

Revenues, expenses, receivables, inventory, accounts payable, and accrued expenses 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:

Beginning balance sheet balances were not correctly set up when the District changed from QuickBooks to Peachtree. Also, payroll liabilities were not correctly set up in Peachtree.

Recommendation:

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:

Training is ongoing regarding Peachtree and procedures are being developed to insure proper coding of transactions.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-01

Lack of Support for Receipts

Condition:

The District was unable to provide deposit slips for 2 out of 26 deposits selected from the bank statement for testing.

Criteria:

Per SAS 115, 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.

Effect:

Insufficient controls do not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Cause:

The District underwent a recent change in management and the current manager is unaware of where the missing deposit slips are located.

Recommendation:

We recommend the District implement control procedures which include the retention of supporting documentation in an organized manner.

Management Response:

Procedures are now in place for the control, organization and coordination of financial documents and records.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-02

Tracing Receipts to General Ledger

Condition:

The District was unable to provide support needed to identify the revenue recorded in the general ledger for 25 out of 26 deposits selected for testing from the bank statement.

Criteria:

Per SAS 115, 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.

Effect:

Insufficient controls do not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Cause:

The District underwent a recent change in management and the current manager cannot find the information used to record receipt amounts in the general ledger.

Recommendation:

We recommend the District implement control procedures which records receipts in a manner that leaves an audit trail in the general ledger for research and confirmation of the accuracy of the recorded transaction.

Management Response:

Procedures are now in place for the control, organization and coordination of financial documents and records.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

SCHEDULE REFERENCE NUMBER: 10-03

Accrued Compensation

Condition:	Complete vacation hours acquired and used were not provided by the client for 9 out of the 20 employees during the fiscal year.
Criteria:	The client should keep up to date and accurate vacation information for all employees in order to properly accrue vacation amounts.
Effect:	Accrued vacation is inaccurate at year-end.
Cause:	The client was unable to locate vacation information for 2 of out of the 20 employees and incomplete information was provided for 7 of the 20 employees.
Recommendation:	Management should keep up-to-date and accurate information on vacation time for all employees.
Management Response:	Procedures are now in place to track employee time and compensation, as well as employee contributions.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-04

Cash Disbursements

Condition:

While performing testwork on the cash disbursements for the fiscal year ending June 30, 2010, the client was unable to provide an invoice or other supporting documentation for 4 out of the 27 items selected.

Criteria:

Cash disbursements should have an invoice, a check request, or other documentation to verify the amount being requested for payment.

Effect:

Documentation is important to verify the amount being requested for payment on each disbursement in order maintain proper internal controls over cash disbursements.

Cause:

The client was unable to provide an invoice or other supporting documentation for 4 out of the 27 items selected.

Recommendation:

Management should ensure that each cash disbursement has the proper documentation including an invoice or other form of check request and retain the documentation in an organized manner.

Management Response:

Procedures are now in place for the control, organization and coordination of financial documents and records.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

SCHEDULE REFERENCE NUMBER: 10-05

Payroll Timesheets

Condition:

The client could not provide supporting time sheets for 15 out of the 27 items selected for payroll test of controls.

Criteria:

Payroll disbursements should be supported by an approved time sheet summary.

Effect:

Documentation is important to verify the amount of hours worked and being paid to insure that they agree.

Cause:

The client could not find the time sheets.

Recommendation:

Management should ensure that each payroll disbursement has proper documentation including an authorized time sheet or summary and that those records are retained in an organized manner.

Management Response:

Procedures are now in place to track employee time and compensation, as well as employee contributions.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

SCHEDULE REFERENCE NUMBER: 10-06

Missing W-4

Condition:

While performing testwork on the payroll disbursements the client could not provide a W-4 for 1 out of the 5 employees tested.

Criteria:

Payroll disbursements should be supported by proper documentation of the employees withholdings.

Effect:

Documentation is required to insure that the requested number of dependants and additional taxes are being taken out.

Cause:

The client could not locate the W-4.

Recommendation:

Management should ensure that each payroll disbursements has proper documentation which includes a signed W-4 from each employee.

Management Response:

Procedures are now in place to maintain employee W-4's.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-07

Missing Receivables Information

Condition:

The client could not provide insurance payments or claim forms for 10 out of the 25 patient and insurance receivables tested. Also, the client could not provide encounters for 17 out of the 45 patient and insurance receivables tested.

Criteria:

The client should keep all underlying accounting records to support the financial statement amounts.

Effect:

The auditor was unable to verify the District's accounts receivable balance and revenues.

Cause:

The District was unable to produce the required documents.

Recommendation:

Management should keep all accounting records in order to support the financial statement amounts.

Management Response:

Procedures are now in place for the control, organization and coordination of financial documents and records.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-08

Incorrect Expense Code in General Ledger

Condition:

During the test of controls for disbursements, the auditor noted 1 out of 27 items tested was improperly recorded as a donation expense in the general ledger. This item should have been recorded as a travel expense.

Criteria:

Management should ensure transactions are properly recorded in the general ledger.

Effect:

Donation and travel expenses are not properly stated in the general ledger.

Cause:

Expense was incorrectly recorded.

Recommendation:

Management should put procedures into place to ensure all transactions are properly recorded in the general ledger.

Management Response:

Personnel have been trained to coordinate expenses with the proper code.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-09

Late Employee and Employer 403(b) contributions

Condition:

The District did not make timely 403(b) contributions after September 25, 2009 to May 11, 2010. The District made a catch up deposit on May 12, 2010, but did not make further deposits between May 13, 2010 and June 30, 2010.

Criteria:

IRS code section 1.403(b)-8 requires contributions to a section 403(b) plan must be transferred to the insurance company issuing the annuity contract within a period that is not longer than is reasonable for the proper administration of the plan.

Effect:

The District is not in compliance with IRS code section 1.403(b)-8.

Cause:

The District did not timely deposit employee and employer 403(b) contributions.

Recommendation:

Management should put procedures into place to ensure 403(b) contributions are timely deposited.

Management Response:

Procedures are now in place to track employee time and compensation, as well as employee contributions.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-10

Late report

Condition:	The District's June 30, 2010 audit report was not submitted to the state auditor by October 15, 2010.
Criteria:	New Mexico State Auditor Rule 2.2.2 NMAC Section 2.2.2.9 (A) requires that the audit report be filed by October 15th.
Effect:	The result of not submitting financial statements to the State Auditor could affect the amount of funding for future years and bond rating.
Cause:	The District did not provide all requested documents to complete the audit before the due date.
Recommendation:	We recommend that the District implement procedures to ensure that the books are kept in good order to enable auditing procedures to be performed on a timely basis.
Management Response:	Because of the abrupt and unexpected departure of the previous administrator, many records were misplaced or missing. The District has instituted a system that should make subsequent audits more timely because of better record keeping and storage.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

SCHEDULE REFERENCE NUMBER: 10-11

Sealed Bids Requirement

Condition:

A purchase of a new accounting software was made for an amount over \$20,000 without obtaining sealed bids.

Criteria:

Under the State Procurement Code (Section 13-1) and local procurement code, purchases over \$20,000 require a sealed bid.

Effect:

The District is in violation of local and state procurement codes.

Cause:

Sealed bids were not obtained when the client purchased a new accounting software which was over \$20,000.

Recommendation:

For future purchases over \$20,000, management should ensure that sealed bids are taken and considered in the decision making process.

Management Response:

The District purchased the software as recommended by Brand name, in part because the software would integrate with our current medical software. It was purchased from a vendor, SAGE as they supplied our medical software "Intergy". The vendor was "sole source" because of their ability to integrate the two programs as well as provide training to staff on how the two programs work together.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS

June 30, 2010

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 27.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS

07-1

The District prepared monthly bank reconciliations.

Finding resolved and not repeated in the current year.

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

The accounting records were materially misstated when presented to the auditors.

Modified and repeated at 08-1.

09-1

During the fiscal year ended June 30, 2009, it was discovered that the District was 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.

The District has since filed all cost reports.

EUNICE SPECIAL HOSPITAL DISTRICT

OTHER DISCLOSURES

For the year ended June 30, 2010

EXIT CONFERENCE

An exit conference was conducted on March 22, 2012 in which the contents of this report were discussed. The following persons were in attendance:

Maira Lujan	Clinic Manager
Barbara Baggett	Chair, Board of Trustees
Billy Robinson	Vice Chairman, Board of Trustees
Mike Miller	Consultant
Mary Hinds, CPA	Audit Director