

EUNICE SPECIAL HOSPITAL DISTRICT

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2012

CONTENTS

	<u>Page</u>
District Officials	2
Report of Independent Certified Public Accountants on Basic Financial Statements, Budgetary Comparison and Supplemental Information	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Fund Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13
Supplemental Information:	
Schedule of Revenues and Expenses-Budget and Actual	22
Other Supplemental Information:	
Schedule of Collateral Pledged by Depository	23
Schedule of Deposit Accounts	24
Report On Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27
Schedule of Status of Prior Findings	52
Other Disclosures	53

DISTRICT OFFICIALS

June 30, 2012

DISTRICT BOARD OF TRUSTEES

Charles "Bud" Hobbs	Chairman
Pam Fisher	Vice Chairman
Barbara Baggett	Secretary
Glen Jenkins	Member
Bill Robinson	Member



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, 2012, 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, 2012, 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, 2012 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, 2012 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, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2014, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the

United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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
August 19, 2014

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, 2012 and June 30, 2011. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The District's total assets increased by \$794,796 and total liabilities increased by \$69,102, resulting in total net assets increasing \$725,694.
- The District's operating expenses in fiscal year 2012 were \$1,058,437.
- As of the close of the current fiscal year, the District reported ending net assets of \$7,823,124.
- There was \$302,579 of revenue generated from charges for services during the fiscal year ended June 30, 2012.
- Investment income decreased by \$11,965.

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 \$1,457,083
- Investment income \$39

Business-type activities

- Revenue from charges for services \$302,579

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 2012	FY 2011	Total Change
Current and Other Assets	\$6,004,958	\$5,115,128	\$889,830
Capital Assets	1,984,800	2,079,834	(95,034)
Total Assets	\$7,989,758	\$7,194,962	\$794,796
Current Liabilities	\$165,919	\$96,817	\$(69,102)
Non-Current Liabilities	715	715	-
Total Liabilities	\$166,634	\$97,532	\$(69,102)
Invested in capital assets, net of related debt	\$1,984,800	\$2,079,834	\$(95,034)
Unrestricted	5,838,324	5,017,596	820,728
Total Net Assets	\$7,823,124	\$7,097,430	\$725,694

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net Assets (continued)

As can be seen from the table on the previous page, net assets increased \$725,694 to \$7,823,124 in fiscal year 2012 from \$7,097,430 in fiscal year 2011. 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 2012	FY 2011	Dollar Change
Operating Revenues	\$327,009	\$450,637	\$(123,628)
Non-Operating Revenues	1,457,122	1,245,608	211,514
Total Revenues	1,784,131	1,696,245	87,886
Depreciation Expense	95,034	99,110	(4,076)
Other Operating Expenses	963,403	1,217,327	(253,924)
Total Expenses	1,058,437	1,316,437	(258,000)
Change in Net Assets	725,694	379,808	345,886
Beginning Net Assets	7,097,430	6,717,622	379,808
Ending Net Assets	\$7,823,124	\$7,097,430	\$725,694

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 \$123,628. Operating revenues decreased 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 decreased for this same period as a result of seeing less patients as well as the kind of patients seen. This results in the need for fewer supplies, i.e., lab, x-ray and other medical supplies.

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 2012 budget comparison and analysis is presented in Table A-3.

Table A-3
Budget vs. Actual
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Revenues				
Property Taxes	\$1,370,000	\$1,370,000	\$1,460,962	\$90,962
Charges for Services	575,000	575,000	324,201	(250,799)
Investment Earnings	-	-	39	39
Operating Grants and Contributions	5,260	5,260	-	(5,260)
Miscellaneous	-	-	24,430	24,430
Total Revenues	\$1,950,260	\$1,950,260	\$1,809,632	\$(140,628)
Expenses				
Personnel Services	753,000	753,000	492,627	260,373
Contractual Services	196,000	196,000	172,382	23,618
Utilities	50,000	50,000	23,788	26,212
Repairs and Maintenance	50,000	50,000	370	49,630
Other Supplies & Expenses	204,560	204,560	153,539	51,021
Insurance Claims & Expenses	100,000	100,000	51,596	48,404
Capital Outlay				
Equipment purchase	377,500	377,500	-	377,500
Total Expenses	\$1,731,060	\$1,731,060	\$894,302	\$836,758
Net Income	\$219,200	\$219,200	\$915,330	\$696,130

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

Patient revenue is less than budgeted due to the number of patients seen as well as a change in types of patients seen, i.e. types of treatments and procedures patients required.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

**Table A-4
Capital Assets**

	FY 2012	FY 2011	Dollar Change
Equipment and software	\$406,971	\$406,971	\$-
Building and improvements	2,016,760	2,016,760	-
Land	119,000	119,000	-
Less Accumulated Depreciation	(557,931)	(462,897)	(95,034)
Total Capital Assets	\$1,984,800	\$2,079,834	\$(95,034)

The District did not have any capital asset purchases during the 2012 fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Trustees of the District considered many factors when setting the fiscal year 2012 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 Le'Ann Reaves, 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, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents (NOTE B)	\$ 2,402,811
Investments (NOTE C)	3,198,018
Accounts receivable, net (NOTE D)	401,014
Other receivables	3,115

Total current assets **6,004,958**

NON-CURRENT ASSETS

Property, plant and equipment (NOTE E)	1,984,800
--	-----------

Total non-current assets **1,984,800**

TOTAL ASSETS **\$ 7,989,758**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Payroll liabilities	\$ 164,371
Compensated absences (NOTE H)	1,548

Total current liabilities **165,919**

NON-CURRENT LIABILITIES

Compensated absences (NOTE H)	715
-------------------------------	-----

Total non-current liabilities **715**

TOTAL LIABILITIES **166,634**

NET ASSETS

Invested in capital assets, net of related debt	1,984,800
Unrestricted	5,838,324

TOTAL NET ASSETS **7,823,124**

TOTAL LIABILITIES AND NET ASSETS **\$ 7,989,758**

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 June 30, 2012</u>
OPERATING REVENUES	
Charges for services	\$ 302,579
Other operating income	24,430
	<hr/>
Total operating revenues	327,009
OPERATING EXPENSES	
Personnel services	561,728
Contractual services	172,382
Other supplies and expenses	153,539
Depreciation	95,034
Insurance claims and expenses	51,596
Repairs and maintenance	370
Utilities	23,788
	<hr/>
Total operating expenses	1,058,437
Operating (loss)	(731,428)
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	1,457,083
Interest income	39
	<hr/>
Total non-operating revenues (expenses)	1,457,122
Increase in net assets	725,694
Total net assets - beginning of period	7,097,430
	<hr/>
Total net assets - end of period	\$ 7,823,124
	<hr/>

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF CASH FLOWS Proprietary Funds

	Year Ended June 30, 2012
OPERATING ACTIVITIES	
Cash receipts from customers	\$ 324,201
Other operating cash receipts	24,430
Cash paid to suppliers	(350,078)
Cash paid to employees	(492,628)
Other cash payments	(51,596)
Net cash (used) by operating activities	(545,671)
NONCAPITAL FINANCING ACTIVITIES	
Property tax receipts	1,460,963
Net cash provided by noncapital financing activities	1,460,963
Net increase in cash	915,292
Cash - beginning of period	1,487,519
Cash - end of period	\$ 2,402,811
Reconciliation of net operating income (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (731,428)
Adjustments to reconcile net operating (loss) to net cash (used) by operating activities:	
Depreciation expense	95,034
Changes in assets and liabilities:	
Receivables, net	21,618
Accrued liabilities	69,105
Net cash provided (used) by operating activities	\$ (545,671)

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)

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.

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.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

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, 2012, the District’s cash consisted of \$2,408,183 in demand deposits. This entire balance was covered by federal depository insurance.

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, 2012</u>
Demand and Interest Accounts	\$ 2,408,183
FDIC coverage	<u>(2,408,183)</u>
Total uninsured public funds	<u>\$ -</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 demand deposits at the same institution which are fully insured.

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, 2012, none of the District's bank balance of \$2,408,183 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, 2012, the District had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
State Investment Pool	< 182 days	\$ 2,788,757
Certificate of Deposit	180 days	203,131
Certificate of Deposit	360 days	<u>206,130</u>
Total		<u>\$ 3,198,018</u>

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

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, 2012.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE C –Investments (continued)

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 52 days as of June 30, 2012.

NOTE D—Accounts Receivable

The following is a summary of the accounts receivable:

	<u>June 30, 2012</u>
Patients, Medicare, Medicaid, Other Insurers	401,849
Property Tax Receivable	<u>83,025</u>
	484,874
Allowance for Uncollectible Accounts	<u>(83,860)</u>
Total	<u>\$ 401,014</u>

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE E – Capital Assets

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

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<u>Depreciable Capital Assets</u>				
Building and Improvements	\$ 2,016,760	\$ -	\$ -	\$ 2,016,760
Equipment and Software	406,971	-	-	406,971
Total Depreciable Capital Assets	<u>2,423,731</u>	<u>-</u>	<u>-</u>	<u>2,423,731</u>
Less Accumulated Depreciation:				
Building and Improvements	(220,133)	(51,712)	-	(271,845)
Equipment and Software	(242,764)	(43,322)	-	(286,086)
Total Accumulated Depreciation	<u>(462,897)</u>	<u>(95,034)</u>	<u>-</u>	<u>(557,931)</u>
<u>Nondepreciable Capital Assets</u>				
Land	119,000	-	-	119,000
Total Nondepreciable Capital Assets	<u>119,000</u>	<u>-</u>	<u>-</u>	<u>119,000</u>
Total Capital Assets	<u>\$ 2,079,834</u>	<u>\$ (95,034)</u>	<u>\$ -</u>	<u>\$ 1,984,800</u>

During fiscal year June 30, 2012, the District reported depreciation expense of \$95,034.

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. No contributions were made to the retirement plan for the year ended June 30, 2012.

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.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE H - Compensated Absences

The District had a liability for accrued vacation as of June 30, 2012 as follows:

Accrued vacation - beginning of year	\$ 2,263
Additions	-
Deletions	-
Accrued vacation - end of year	<u>\$ 2,263</u>

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

NOTE I – Subsequent Events

The District has evaluated subsequent events through August 19, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF REVENUES AND EXPENSES BUDGET AND ACTUAL For the Year Ended June 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	Variance Positive (Negative)
REVENUES				
Property taxes	\$ 1,370,000	\$ 1,370,000	\$ 1,460,962	\$ 90,962
Charges for services	575,000	575,000	324,201	(250,799)
Investment earnings	-	-	39	39
Operating Grants and Contributions	5,260	5,260	-	(5,260)
Miscellaneous	-	-	24,430	24,430
Total revenues	\$ 1,950,260	\$ 1,950,260	\$ 1,809,632	\$ (140,628)
EXPENSES				
Personnel services	753,000	753,000	492,627	260,373
Contractual services	196,000	196,000	172,382	23,618
Utilities	50,000	50,000	23,788	26,212
Repairs and maintenance	50,000	50,000	370	49,630
Other supplies and expenses	204,560	204,560	153,539	51,021
Insurance claims and expenses	100,000	100,000	51,596	48,404
Capital Outlay				
Equipment purchase	377,500	377,500	-	377,500
Total expenses	\$ 1,731,060	\$ 1,731,060	\$ 894,302	\$ 836,758
Revenues over expenses	\$ 219,200	\$ 219,200	\$ 915,330	\$ 696,130
OTHER FINANCING SOURCES				
Prior year cash balance	1,487,519	1,487,519	-	
Total other financing sources	\$ 1,487,519	\$ 1,487,519	-	
Net change in fund balances	\$ 1,706,719	\$ 1,706,719	915,330	
Reconciliation to GAAP Basis:				
Depreciation expense			(95,034)	
Increase in property tax receivable			(3,879)	
Decrease in accounts receivable			(21,618)	
Decrease in accrued liabilities			(69,105)	
Increase in net assets			\$ 725,694	

The accompanying notes are an integral part of these statements.

OTHER SUPPLEMENTAL INFORMATION

EUNICE SPECIAL HOSPITAL DISTRICT

**SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY
FOR PUBLIC FUNDS
June 30, 2012**

None required.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF DEPOSIT ACCOUNTS

June 30, 2012

<u>Name of Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
Wells Fargo Bank NM	Operational	Checking	\$ 2,408,183	\$ 2,401,711
Depository Cash Total			2,408,183	2,401,711
Cash on Hand			-	1,100
Cash Total			\$ 2,408,183	\$ 2,402,811
Lea County State Bank	Eunice Special Hospital District	CD	\$ 203,131	\$ 203,131
Pioneer Bank	Eunice Special Hospital District	CD	206,130	206,130
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	2,787,409	2,787,409
New Mexico State Treasurer	Eunice Health Clinic District	LGIP	1,348	1,348
Investments Total			\$ 3,198,018	\$ 3,198,018

The accompanying notes are an integral part of these statements.



**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, 2012, as listed in the table of contents, and have issued our report thereon dated August 19, 2014. We were also engaged to audit the budgetary comparison statement presented as supplemental information as of and for the year ended June 30, 2012, as listed in the table of contents.

We were unable to express an opinion on those financial statements because the District's accounting records as of and for the year ended June 30, 2012 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (08-01, 10-01, 10-02, 10-03, 10-04, 10-05, 10-07, 11-01, 11-03, 11-09 and 12-03).

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. We consider the deficiencies described in the accompany schedule of findings and questioned cost to be significant deficiencies (07-04, 11-02, 11-04, and 11-06).

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 other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 10-08, 10-09, 10-10, 11-05, 11-07, 11-12, 12-01, and 12-02.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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
August 19, 2014

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 08-01

Accounting Records (Modified and Repeated) - Material Weakness

Condition:	Revenues, expenses, receivables, 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:	Client is not using Peachtree to record all transactions occurring within the District and a separate Profit/Loss statement is being kept externally. 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:	Management has trained two people on Peachtree and are working on policies and procedures for proper record keeping.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-01

Lack of Support for Receipts (Modified and Repeated) - Material Weakness

Condition:

The District was unable to provide deposit slips for 2 out of 25 deposits totaling \$562 selected from the account financial history by service date report for testing. Also, the District was unable to provide adequate detail to trace cash payments from the patient encounter to the daily deposit slip for 6 out of 25 deposits total \$242.60 selected from the account financial history by service date report 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 currently does not have procedures in place to appropriately keep track of deposits and EOB or Encounters that are made to support transactions and keep a proper audit trail.

Recommendation:

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

Management Response:

Management has placed procedures in place for keeping all pertinent records and documents.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-02

Identifying Receipts Record in the General Ledger (Modified and Repeated) - Material Weakness

Condition:	The District was unable to provide support needed to identify the revenue recorded in the general ledger for 25 out of 25 deposits totaling \$2,779.90 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:	Daily deposits are not being recorded in the accounting system.
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:	Management has hired a finance specialist and has Peachtree accounting software to properly record in the general ledger.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-03

Accrued Compensation (Repeated) - Material Weakness

Condition:	Complete vacation hours acquired and used were not provided by the client for any 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 does not have complete vacation information for each employee.
Recommendation:	Management should keep up-to-date and accurate information on vacation time for all employees.
Management Response:	Management has placed procedures in place for keeping all pertinent records and documents.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

SCHEDULE REFERENCE NUMBER: 10-04

Cash Disbursements (Modified and Repeated) - Material Weakness

Condition:

The client was unable to provide an invoice or other supporting documentation for 3 out of the 26 items totaling \$20,672.30 selected for testing.

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 to maintain proper internal controls over cash disbursements.

Cause:

The client was unable to provide an invoice or other supporting documentation for 3 out of the 26 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:

All disbursements will be filed with all supporting documentation according to vendor.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-05

**Payroll Timesheets (Modified and Repeated) -
Material Weakness**

Condition:	The client could not provide sufficient supporting time sheets or other approval for 7 out of the 25 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 locate the time sheets or other approval.
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:	All payroll and employee records will be kept in an organized manner.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

SCHEDULE REFERENCE NUMBER: 10-07

Missing Receivables Information (Modified and Repeated) - Material Weakness

Condition:	The client could not provide EOB or claim forms for 22 out of the 25 receivables tested. Also, the client could not provide encounters for 1 out of the 24 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:	Management has hired trained personnel to keep all financial matters in proper order.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-08

**Incorrect Expense Code in General Ledger
(Modified and Repeated) - Other Matter**

Condition:	During the test of controls for disbursements, JMCO noted 4 out of 26 items totaling \$3,495.11 selected for testing were improperly coded in the general ledger.
Criteria:	Management should ensure transactions are properly recorded in the general ledger.
Effect:	Expenses and capital assets are not properly stated in the general ledger.
Cause:	Expenses and capital assets were incorrectly recorded.
Recommendation:	Management should put procedures into place to ensure all transactions are properly recorded in the general ledger.
Management Response:	Management has policies in place to ensure transactions are properly recorded.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-09

Late Employee and Employer 403(b) contributions (Repeated) - Other Matter

Condition:

The District did not make timely 403(b) contributions after September 25, 2009 to May 5, 2014. The District made a catch up deposit on May 12, 2010, but did not make further deposits between May 13, 2010 and June 30, 2012.

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:

All 403(b) contributions were caught up on May 23, 2014. Going forward these contributions will be timely filed.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 10-10

Late report (Repeated) - Other Matter

Condition:	The District's June 30, 2012 audit report was not submitted to the state auditor by October 15, 2012.
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:	Management has hired a person strictly for financial management and is working with a CPA with Peachtree to help assist in any matters.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-01

**Monthly Bank Reconciliations (Repeated) -
Material Weakness**

Condition: The District's checking account was not reconciled monthly.

Criteria: Accurate monthly reconciliations are needed to provide control over cash accounts and maintain correct asset accountability.

Effect: The District is not able to identify material misstatements to cash in a timely manner.

Cause: Client did not prepare monthly bank reconciliations.

Recommendation: Client should reconcile all bank accounts on a monthly basis and keep a hard copy of all reconciliations. This will help track any potential errors, omission or other irregularities that may occur in a timely manner to avoid any material misstatements and will help in maintaining a proper audit trail.

Management Response: Management has hired a person strictly for financial management and is working with a CPA with Peachtree to help assist in any matters.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-02

Compare Budget to Actual Results (Repeated)
- Significant Deficiency

Condition:

The District prepares budgets annually, but they are not regularly reviewed and compared to actual results.

Criteria:

The State Auditor requires that the budgetary comparison statements be audited and included as part of the basic financial statements consistent with GASBS 34 footnote 53 and AAG-SLV 11.13.

Effect:

Budgets are not useful if they are not compared to actual results.

Cause:

The District does not compare budgets to actual results.

Recommendation:

We believe that the actual results of operations should be compared to the budgeted amounts monthly, and any large discrepancies should be investigated and explained so that any necessary corrective action can be considered. These analyses should be included in the monthly reports to the Board of Trustees to help them understand the financial results and their implications and to help the Board make informed decisions.

Management Response:

Now that we have Peachtree reconciled the results of operation should track to budget for a better review by the Board of Trustees.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-03

Closing Procedures (Repeated) - Material Weakness

Condition:

The District does not have appropriate period closing procedures.

Criteria:

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

Effect:

There was a delay in the District producing financial reports needed by the auditors. Also, the auditors had to prepare entries and schedules that District personnel should have prepared.

Cause:

The District has not developed period closing procedures.

Recommendation:

We believe that the period closing could proceed more quickly and smoothly by developing a logical order for closing procedures and assigning responsibility for completing the procedures to specific District personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished.

The following is our recommended summary of the required closing procedures:

- a. Complete all payroll processes, including –
 - i. Processing all payroll checks for the current fiscal year through June 30.
 - ii. Preparing, reconciling, and filing payroll tax forms and reports, such as Forms 1099, 1096, 941, 940, W-2, and W-3.
- b) Determine that all transactions have been recorded and posted. Review the transactions for completeness by scanning the ending balances and the transactions posted to each general ledger account to detect unusual entries or unexpected ending balances.
- c) Reconcile all general ledger accounts and make necessary adjustments, including –
 - i) Agreeing ending general ledger cash balances to ending bank reconciliation balances.
 - ii) Agreeing the ending accounts receivable balance to the total of the Aged Receivables Report.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-03

Closing Procedures (continued)

Recommendation (continued):

- iii) Agreeing the ending accounts payable balance to the total of the Aged Payables Report.
- iv) Computing bad debt expense, accounts receivable, and allowance for doubtful accounts by using the allowance method.
- v) Determining that fixed asset sales are recorded.
- vi) Calculating and reconciling depreciation on fixed assets.
- vii) Recording interest income on investments.
- d) Review all vendor accounts for inactive accounts and consider making them inactive in the accounting system to prevent accidental posting to them.
- e) Print the following year-end reports in order to have a record of historical transactions for the year (they may also be useful during the audit):
 - i) Accounts receivable –
 1. Revenue journal
 2. Cash receipts journal
 3. Customer ledgers
 4. Aged account receivable trial balance
 - ii) Accounts payable –
 1. Check register
 2. Aged accounts payable trial balance
 3. Forms 1099
 - iii) Payroll
 1. Payroll check register
 2. Quarterly earnings report
 3. Yearly earnings report
 4. Payroll tax reports
 5. State quarterly report forms
 6. Federal forms (940, 941, W-2, and W-3)
 - iv) General ledger –
 1. Trial balance
 2. Trial balance by report classification
 3. Adjusting journal entries
 4. Reclassification entries

Our audit procedures would include reviewing some of the procedures, entries and reports.

Management Response:

This item should be resolved with the addition of a finance specialist now working for the district.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-04

**Establish Allowance for Doubtful Accounts
(Repeated) - Significant Deficiency**

Condition:	The District did not provide an amount for an allowance for doubtful accounts.
Criteria:	Accounting records should provide an accurate record of transactions and conditions affecting the entity.
Effect:	Receivables are not appropriately valued which could lead to the financial statements being materially misstated.
Cause:	The District does not have an accounting policy for establishing an allowance for doubtful accounts.
Recommendation:	We recommend the District establish a policy for providing for uncollectible accounts and review this policy on a regular basis. Some items to consider when establishing this policy is the age of the receivables, historical collectability, and economic conditions.
Management Response:	The staff will review outstanding accounts and recommend a policy for review and resolution for uncollectable accounts.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-05

Hiring an Accounting Manager (Repeated) - Other Matter

Condition:

In performing this year's audit, we noted conditions that cause us to believe that the District is in need of an accounting manager to be responsible for all of the day-to-day accounting, including accounting for revenues and expenses, reconciling accounts to supporting documents on a monthly basis, and preparing monthly financial statements in accordance with generally accepted accounting principles.

Criteria:

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

Effect:

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

Cause:

The District's current accounting manager does not possess the accounting experience or knowledge to perform these duties.

Recommendation:

We recommend that an accounting manager be hired who would report to the Board of Trustees. The accounting manager's duties should be structured so that no one person in the District has total control over the accounting system.

Management Response:

The District has hired an accounting manager as well as a CPA's assistance in Peachtree.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-06

**Inventory Fixed Assets (Repeated) -
Significant Deficiency**

Condition:

The District does not perform a physical inventory of property and equipment included on the depreciation schedule.

Criteria:

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

Effect:

The District's detailed record of assets could be incorrect.

Cause:

The District's currently does not have procedures in place to perform an inventory of fixed assets.

Recommendation:

We recommend that the District perform a physical inventory of property and equipment. In connection with this inventory, tags should be placed on each asset with numbers that are recorded in the detail property records. This will help improve the tracking of assets for disposal and impairment purposes.

Management Response:

The District will develop an inventory system for capital assets. This system will also include regular tests on the system.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-07

List of Authorized Check Signers (Modified and Repeated) - Other Matter

Condition:

During our audit of the District's cash accounts, we discovered that a person who had terminated employment in 2013 was still listed in the bank's records as an authorized check signer.

Criteria:

Terminated employees should be removed as authorized check signers immediately upon termination.

Effect:

Such a situation is a security risk over the District's bank accounts.

Cause:

The District does not regularly review a list of authorized check signers.

Recommendation:

We recommend that the District periodically check the authorized check signing list and update it if necessary and that the bank be promptly and formally notified of the change. Also, a notation that the employee is an authorized signer could be included in the employee's personnel file so that if the person terminates, the name can be promptly removed from the authorization list and the bank informed of the fact.

Management Response:

The District will make changes on account authorizations when there are changes in Board members or personnel. The board adopted a resolution updating authorized signatures to all financial institutions on 4/24/14 and continue to do so.

**EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

SCHEDULE REFERENCE NUMBER: 11-09

Prepare More Accurate Monthly Financial Statements (Repeated) - Material Weakness

Condition:

It appears from the large number of year-end adjustments that the District's monthly financial statements as provided to the Board of Trustees were materially misstated.

Criteria:

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

Effect:

Management and the Board of Trustees received materially misstated information.

Cause:

The District only provides an income statement to the Board of Trustees. The income statement did not include all revenue received and expenses paid by the District.

Recommendation:

We recommend that the District record all transactions and reconcile accounts of the District during the monthly closing process.

Management Response:

With the addition of an accounting manager, this item should be resolved.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 11-12

Payroll Timesheets (Repeated) - Other Matter

Condition:

All timesheets selected for testing did not have clear and specific pay period reporting dates making it difficult to identify the correct pay period.

Criteria:

Timesheets should have accurate reporting period dates to support all underlying accounting records.

Effect:

The District will be unable to determine what timesheet is for the proper reporting period which could potentially allow for misstatements in payroll.

Cause:

Employee timesheets did not have clear period reporting dates.

Recommendation:

The District should have specific and clear dates on all timesheets to be able to properly keep track of timesheets for specified periods.

Management Response:

This item should be resolved with the addition of an accounting manager.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012
SCHEDULE REFERENCE NUMBER: 12-01

Deduction Authorization Forms - Other Matter

Condition:	The auditor noted 4 out of the 5 employees selected for testing did not have proper deduction authorization forms for the 403b deductions in their personnel files being withheld from their paycheck.
Criteria:	A complete personnel file should be prepared for all new employees and should be kept up to date for any personnel changes the employee makes during their employment.
Effect:	The District does not have proper support for the employee deduction.
Cause:	The District does not keep these forms on file.
Recommendation:	The District should include all proper deduction authorization forms in the employees' personnel files.
Management Response:	This policy is currently in place and all proper deduction authorization forms are in the employees' personnel files.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 12-02

Time Card Authorization - Other Matter

Condition:	The employees' time cards do not have employee or supervisor signature approvals.
Criteria:	Time cards support the District's labor expenses and should be properly authorized.
Effect:	Employees could inaccurately complete the time cards without the supervisors knowledge.
Cause:	The District currently does not require approval on time cards.
Recommendation:	Since the time cards are the source document supporting the District's labor expenses, we recommend that employees be required to sign the time card and submit them to their supervisor or manager for approval. Requiring signatures can help impress on employees the need for accuracy and honesty in filling out the time cards and that by signing it they are making a representation about those matters. Knowledge that the cards will be reviewed by the supervisor or manager will also encourage employees to fill out the cards accurately and honestly. The supervisors or managers, who will be generally knowledgeable about their employees' attendance, hours, and work assignments during the pay period, should sign each time card indicating review and approval of hours worked by category (product, job, etc.). The review would determine that the employees have recorded time only when it had actually been worked and that the allocation of time by category was appropriate and reasonable. The supervisors or managers should be responsible for obtaining the cards from employees and submitting them to the Human Resources clerk on time.
Management Response:	Effective 9/1/14, management will sign and approve all time cards.

EUNICE SPECIAL HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

SCHEDULE REFERENCE NUMBER: 12-03

Fraudulent Credit Card Purchases - Material Weakness

Condition:

In November 2013, the District discovered a former employee was making unauthorized purchases on the District's credit card in the amount of \$5,812.55 from 2010-2013.

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:

With the lack of controls over credit card purchases, an employee was able to make fraudulent purchases.

Cause:

The District did not have proper controls over the credit card purchases.

Recommendation:

We recommend the District establish controls over credit card purchases in order to prevent the risk of fraudulent credit card purchases.

Management Response:

The finance specialist now includes the copy of the credit card statement along with receipts in each board packet. Management approves all purchases.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS

June 30, 2012

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

- 07-04 – Preparation of Financial Statements – Repeated
- 08-01 – Accounting Records – Modified and Repeated
- 10-01 – Lack of Support for Receipts – Modified and Repeated
- 10-02 – Identifying Receipts Record in the General Ledger – Modified and Repeated
- 10-03 – Accrued Compensation – Repeated
- 10-04 – Cash Disbursements – Modified and Repeated
- 10-05 – Payroll Timesheets – Modified and Repeated
- 10-07 – Missing Receivables Information – Modified and Repeated
- 10-08 – Incorrect Expense Code in General Ledger – Modified and Repeated
- 10-09 – Late Employee and Employer 403(b) Contributions – Repeated
- 10-10 – Late Report - Repeated
- 11-01 – Monthly Bank Reconciliations – Repeated
- 11-02 – Compare Budget to Actual Results – Repeated
- 11-03 – Closing Procedures – Repeated
- 11-04 – Establish Allowance for Doubtful Accounts - Repeated
- 11-05 – Hiring an Accounting Manager - Repeated
- 11-06 – Inventory Fixed Assets - Repeated
- 11-07 – List of Authorized Check Signers - Modified and Repeated
- 11-08 – Maintain a Schedule of Asset Additions - Resolved
- 11-09 – Prepare More Accurate Monthly Financial Statements – Repeated
- 11-10 – Lack of Documentation for Repairs and Supplies – Resolved
- 11-11 – Board Meeting Minutes - Resolved
- 11-12 – Payroll Timesheets – Repeated
- 11-13 – Accounts Payable – Resolved

EUNICE SPECIAL HOSPITAL DISTRICT

OTHER DISCLOSURES

For the year ended June 30, 2012

EXIT CONFERENCE

An exit conference was conducted on August 21, 2014 in which the contents of this report were discussed. The following persons were in attendance:

Charles "Bud" Hobbs	Board of Trustees
Bill Turner	Board of Trustees
Mike Miller	Consultant
Le'Ann Reeves	Clinic Manager
Shayla Williams	Staff
Mary Hinds, CPA	Audit Director
Tabatha Coffey, CPA	Audit Supervisor