

EUNICE SPECIAL HOSPITAL DISTRICT

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2015

CONTENTS

| | <u>Page</u> |
|---|-------------|
| District Officials | 2 |
| Independent Auditors' Report | 3 |
| Management's Discussion and Analysis | 6 |
| Basic Financial Statements: | |
| Statement of Net Position | 11 |
| Statement of Revenues, Expenses and Changes in Fund Net Position | 12 |
| Statement of Cash Flows | 13 |
| Notes to Financial Statements | 14 |
| Supplemental Information: | |
| Schedule of Revenues and Expenses-Budget and Actual | 24 |
| Other Supplemental Information: | |
| Schedule of Collateral Pledged by Depository | 25 |
| Schedule of Deposit Accounts | 26 |
| Schedule of Vendor Information | 27 |
| Independent Auditors' Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 28 |
| Schedule of Findings and Responses | 30 |
| Schedule of Status of Prior Findings | 48 |
| Other Disclosures | 50 |

DISTRICT OFFICIALS

June 30, 2015

DISTRICT BOARD OF TRUSTEES

| | |
|---------------------|---------------------|
| Charles "Bud" Hobbs | Chairman |
| Pam Fisher | Vice Chairman |
| Barbara Baggett | Secretary/Treasurer |
| Billy Turner | Member |
| Bill Robinson | Member |



INDEPENDENT AUDITORS' REPORT

Mr. Tim Keller
New Mexico State Auditor
Eunice Special Hospital District Officials
Eunice, New Mexico

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities and the budgetary comparison statement of Eunice Special Hospital District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Results of Operations, Cash Flows, and Schedule of Revenue and Expenses – Budget to Actual

The District's accounting records for 2013-2014 were not sufficient to audit. Audited accounting records were not available to substantiate 2014-2015 beginning balances reported for assets, liabilities, and net position. Therefore, 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 to revenues and expenses. The amount by which these departures would affect the revenue and expenses of the District is not reasonably determinable.

Disclaimer of Opinion on Results of Operations, Cash Flows, and Schedule of Revenue and Expenses – Budget to Actual

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 Revenue, Expenses, Changes in Fund Net Position, and the Statement of Cash Flows of the business-type activities, and the budgetary comparison for the year ended June 30, 2015.

Opinion on Statement of Net Position

In our opinion, the Statement of Net Position referred to above presents fairly, in all material respects, the respective financial position of the business-type activities.

Other Matters


Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

We were engaged to audit 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 on pages 25 and 26 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. In our opinion these schedules are fairly stated, in all material respects in relation to the basic financial statements as a whole.

The Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2015 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* in considering the District's internal control over financial reporting and compliance.


Hobbs, New Mexico
October 9, 2015

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, 2015 and June 30, 2014. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- As discussed in the notes to the financial statements we recalculated the beginning balance of accounts receivables as of July 1, 2014 and made payments to insurance companies for insurance premiums that covered prior years. This resulted in a prior period adjustment and reduction of beginning net position of \$755,322. The financial information discussed in the management discussion and analysis does not reflect restated amounts for the year ended June 30, 2014 due to the limitation of information related to the amounts for the year ended June 30, 2014.
- The District's total assets at June 30, 2015 and 2014 were \$9,462,648 and \$9,759,050, respectively.
- The District's total liabilities at June 30, 2015 and 2014 were \$148,339 and \$266,736 respectively.
- The District's operating expenses for fiscal year ended June 30, 2015 and 2014 totaled \$1,543,541 and \$1,377,955, respectively.
- As of the close of the fiscal year ended June 30, 2015 and 2014 the District reported ending total net position of \$9,314,309 and \$9,492,314, respectively.

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 position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statement (continued)

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.

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 14 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of an entity's financial position. By far the largest portion of the District's net position 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 \$1,784,487
- Investment income \$3,257

Business-type activities

- Revenue from charges for services \$507,986
- Miscellaneous Income \$37,574

Net Position

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

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

| | FY 2015 | FY 2014 |
|----------------------------|--------------------|--------------------|
| Current and Other Assets | \$7,657,854 | \$7,562,011 |
| Capital Assets | 1,804,794 | 2,197,039 |
| Total Assets | \$9,462,648 | \$9,759,050 |
| | | |
| Current Liabilities | \$148,339 | \$266,736 |
| Total Liabilities | \$148,339 | \$266,736 |
| | | |
| Invested in capital assets | \$1,804,794 | \$2,197,039 |
| Unrestricted | 7,509,515 | 7,295,275 |
| Total Net Position | \$9,314,309 | \$9,492,314 |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position (continued)

The decrease in net position is primarily due to the prior period restatement as shown in Table A-2.

Revenues and Expenses

Revenues, expenses and changes in net position are shown in the schedule below:

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

| | FY 2015 | FY 2014 |
|--|--------------------|--------------------|
| Total Operating Revenues | \$545,560 | \$626,239 |
| Bad Debt Expense | 107,778 | 1,184 |
| Depreciation Expense | 76,338 | 95,448 |
| Other Operating Expenses | 1,359,425 | 1,281,323 |
| Total Operating Expenses | 1,543,541 | 1,377,955 |
| Total Non-Operating Revenues (Expenses) | 1,575,298 | 1,701,838 |
| Change in Net Position | 577,317 | 950,122 |
| Beginning Net Position | 9,492,314 | 8,542,192 |
| Prior Period Restatement | (755,322) | - |
| Ending Net Position | \$9,314,309 | \$9,492,314 |

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

The decrease in total revenue is due to lower insurance reimbursements and a small decrease in patient encounters.

The increase in expenses is due to a increase in salaries for profession staff, bad debt expense, and the prior period restatement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2015 budget comparison and analysis is presented in Table A-3.

Table A-3
Budget vs. Actual
Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance |
|-----------------------------|------------------------|---------------------|--------------------|--------------------|
| Revenues | | | | |
| Property Taxes | \$1,394,152 | \$1,394,152 | \$1,820,947 | \$426,795 |
| Charges for Services | 320,100 | 320,100 | 331,254 | 11,154 |
| Investment Earnings | - | - | 3,257 | 3,257 |
| Miscellaneous | 143,100 | 143,100 | 180,257 | 37,157 |
| Total Revenues | \$1,857,352 | \$1,857,352 | \$2,335,715 | \$478,363 |
| Expenses | | | | |
| Personnel Services | 615,000 | 615,000 | 873,045 | (258,045) |
| Contractual Services | 289,000 | 289,000 | 332,408 | (43,408) |
| Utilities | 33,500 | 33,500 | 37,275 | (3,775) |
| Repairs and Maintenance | 35,000 | 35,000 | 15,572 | 19,428 |
| Other Supplies & Expenses | 130,500 | 130,500 | 164,107 | (33,607) |
| Insurance Claims & Expenses | 90,000 | 90,000 | 159,476 | (69,476) |
| Capital Outlay | | | | |
| Equipment purchase | 6,600 | 6,600 | 36,222 | (29,622) |
| Total Expenses | \$1,199,600 | \$1,199,600 | \$1,618,105 | (\$418,505) |
| Net Income | \$657,752 | \$657,752 | \$717,610 | \$59,858 |

The primary reason for the increase in revenues from the budget is the property taxes. This revenue is calculated by using valuations provided by the New Mexico Taxation and Revenue Department property tax division. Since a large portion of the total tax is related to oil and gas production this amount fluctuates during the year due to the price of oil and the amount of production.

The increase in expenses from the budgeted amounts is due to: Expenses are projected based on previous year actual. This year our largest increase was due to salaries. We renegotiated a contract with one of our providers and the Board adjusted pay scales for employees.

Management is reviewing the financial reports & budgeting process to more accurately project operating revenues & expenses.

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

Capital Assets

**Table A-4
Capital Assets**

| | FY 2015 | FY 2014 |
|-------------------------------|--------------------|--------------------|
| Equipment and software | \$474,599 | \$438,376 |
| Building and improvements | 2,033,608 | 2,388,009 |
| Land | 119,000 | 119,000 |
| Less Accumulated Depreciation | (822,412) | (748,346) |
| | | |
| Total Capital Assets | \$1,804,794 | \$2,197,039 |

The decrease in total capital assets is due to the sale of the pharmacy building.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Trustees of the District considered many factors when setting the fiscal year 2015 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 220, Eunice, New Mexico 88231 or by phone at 575-394-1091.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF NET POSITION

Proprietary Funds

June 30, 2015

ASSETS

CURRENT ASSETS

| | |
|------------------------------------|--------------|
| Cash and cash equivalents (NOTE B) | \$ 4,166,646 |
| Investments (NOTE C) | 3,211,537 |
| Accounts receivable, net (NOTE D) | 274,733 |
| Other receivables | 4,938 |

Total current assets **7,657,854**

NON-CURRENT ASSETS

| | |
|--|-----------|
| Property, plant and equipment (NOTE E) | 1,804,794 |
|--|-----------|

Total non-current assets **1,804,794**

TOTAL ASSETS **\$ 9,462,648**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|-------------------------------|-----------|
| Accounts payable | \$ 45,603 |
| Compensated absences (NOTE H) | 34,219 |
| Payroll liabilities | 22,767 |
| Patient over-payments | 45,750 |

Total current liabilities **148,339**

TOTAL LIABILITIES **148,339**

NET POSITION

| | |
|----------------------------|-----------|
| Invested in capital assets | 1,804,794 |
| Unrestricted | 7,509,515 |

TOTAL NET POSITION **9,314,309**

TOTAL LIABILITIES AND NET POSITION **\$ 9,462,648**

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

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

| | <u>Year Ended June 30, 2015</u> |
|--|-------------------------------------|
| OPERATING REVENUES | |
| Charges for services | \$ 507,986 |
| Other operating income | 37,574 |
| | <hr/> |
| Total operating revenues | 545,560 |
| OPERATING EXPENSES | |
| Personnel services | 675,752 |
| Contractual services | 332,408 |
| Other supplies and expenses | 197,252 |
| Bad debt expense | 107,778 |
| Insurance expense | 101,166 |
| Depreciation | 76,338 |
| Utilities | 37,275 |
| Repairs and maintenance | 15,572 |
| | <hr/> |
| Total operating expenses | 1,543,541 |
| Operating (loss) | (997,981) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Property taxes | 1,784,487 |
| Interest income | 3,257 |
| Sale of real property | (212,446) |
| | <hr/> |
| Total non-operating revenues (expenses) | 1,575,298 |
| Increase in net position | 577,317 |
| Total net position - beginning of period | 9,492,314 |
| Prior period restatement (Note I) | (755,322) |
| | <hr/> |
| Total net position - beginning of period, as restated | 8,736,992 |
| Total net position - end of period | \$ 9,314,309 |

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

STATEMENT OF CASH FLOWS

Proprietary Funds

| | Year Ended June 30, 2015 |
|---|-------------------------------------|
| OPERATING ACTIVITIES | |
| Cash receipts from customers | \$ 331,253 |
| Other operating cash receipts | 40,574 |
| Cash paid to suppliers | (549,365) |
| Cash paid to employees | (873,045) |
| Other cash payments | (159,476) |
| Net cash (used) by operating activities | (1,210,059) |
| NONCAPITAL FINANCING ACTIVITIES | |
| Property tax receipts | 1,820,948 |
| Net cash provided by noncapital financing activities | 1,820,948 |
| CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Payment for purchase of equipment | (36,223) |
| Proceeds from sale of pharmacy building | 139,683 |
| Net cash provided by capital and related financing activities | 103,460 |
| Net increase in cash | 714,349 |
| Cash - beginning of period | 3,452,297 |
| Cash - end of period | \$ 4,166,646 |
| Reconciliation of net operating income (loss) to net cash (used) by operating activities | |
| Operating (loss) | \$ (997,981) |
| Adjustments to reconcile net operating (loss) to net cash (used) by operating activities: | |
| Depreciation expense | 76,338 |
| Bad debt expense | 107,778 |
| Changes in assets and liabilities: | |
| Receivables, net | (222,484) |
| Other receivables | 3,000 |
| Accounts payable | (25,171) |
| Accrued liabilities | (197,289) |
| Patient over-payments | 45,750 |
| Net cash provided (used) by operating activities | \$ (1,210,059) |

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 April 5, 2011, a mill levy election was held and was approved for the tax years July 1, 2011 through June 30, 2015. On March 3, 2015, a mill levy election was held and was approved for the tax years July 1, 2015 through June 30, 2019.

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.

The County has adopted the requirements of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement requires governments to account for deferred outflows of resources, deferred inflows of resources, and net position elements in Concepts Statement No. 4 as it relates to GASB Statements 53 (derivatives) and 60 (SCA's). Concepts Statement No. 4 indicates that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. This statement is effective for periods beginning after December 15, 2011.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

Fund Accounting:

Enterprise Funds: (Unrestricted Funds)

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

The District prepares its financial statements as a business-type activity applicable to GASB standards.

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.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

Budgets and Budgetary Accounting (continued):

The District has expenditures in excess of approved budgetary appropriations in the amount of \$418,505 for the year ended June 30, 2015.

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.

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.

Deferred Outflows of Resources:

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its enterprise funds statements of net position. The District did not have deferred outflows of resources to report in its government-wide or governmental funds financial statements in the current year.

Deferred Inflows of Resources:

The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District did not have deferred inflows of resources to report in its government-wide financial statements for the current year.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

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:

* 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.

* Other Third-Party Payors – The District also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined fee schedules.

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.

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 H 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.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

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 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.

Net Position:

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 position consists of net position that does not meet the definition of "invested in capital assets, net of related debt."

Restricted net position includes net position that has 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.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - Cash and Cash Equivalents (continued)

The District's deposits were uncollateralized from July 1, 2014 through November 27, 2014. At June 30, 2015, the District's cash consisted of \$ \$4,172,129 in demand deposits. Of this balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized.

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 50% of the amount on deposit with the institution. The schedule listed below will meet the State Auditor's requirements in reporting the insured portion of the deposits.

| | <u>June 30, 2015</u> |
|--|------------------------------|
| Demand and Interest Accounts | \$ 4,172,129 |
| FDIC coverage | <u>(250,000)</u> |
| Total uninsured public funds | <u>\$ 3,922,129</u> |
| | <u>June 30, 2015</u> |
| Collateral requirement: 50% of regular accounts | \$ 1,961,065 |
| Pledged security held by pledging bank's trust department or agent but not in the District's name | <u>4,134,688</u> |
| (Excess) Under Collateralization | <u>\$ (2,173,624)</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.

The insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. Separately, all demand deposits owned by a public unit and held by the public unit's official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. For the purpose of these rules, the term 'time and savings deposits' includes NOW accounts and money market deposit accounts but does not include interest-bearing demand deposit accounts (which were permitted after July 21, 2011). The term 'demand deposits' means both interest-bearing and noninterest-bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal. The insurance coverage of accounts held by government depositors is different if the depository institution is located outside the State in which the public unit is located.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - Cash and Cash Equivalents (continued)

In that case, all deposits, both time and savings deposits and demand deposits, owned by the public unit and held by the public unit's official custodian are added together and insured up to \$250,000. Time and savings deposits are not insured separately from demand deposits.

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, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2015, \$3,922,129 of the District's bank balance of \$4,172,129 was exposed to custodial credit; \$3,922,129 was uninsured and collateralized by collateral held by the pledging bank's trust department, but not in the District's name.

NOTE C –Investments

As of June 30, 2015, the District had the following investments:

| <u>Investment</u> | <u>Maturities</u> | <u>Fair Value</u> |
|------------------------|-------------------|---------------------|
| State Investment Pool | < 182 days | \$ 2,798,878 |
| Certificate of Deposit | 180 days | 203,749 |
| Certificate of Deposit | 360 days | 208,910 |
| Total | | \$ 3,211,537 |

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 6.4% of total investments. These certificates of deposit were fully insured by the FDIC at June 30, 2015.

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% 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%.

EUNICE SPECIAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

NOTE C –Investments (continued)

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.

At June 30, 2015, the LGIP had an AAAM rating by Standard & Poor's, a WAM(R) of 54.6 days and a WAM (F) of 77.7 days.

NOTE D—Accounts Receivable

The following is a summary of the accounts receivable:

| | <u>June 30, 2015</u> |
|--|--------------------------|
| Patients, Medicare, Medicaid, Other Insurers | 256,793 |
| Property Tax Receivable | <u>68,141</u> |
| | 324,934 |
| Allowance for Uncollectible Accounts | <u>(50,201)</u> |
| Total | <u>\$ 274,733</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>June 30, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2015</u> |
|--------------------------------------|----------------------|--------------------|---------------------|----------------------|
| <u>Depreciable Capital Assets</u> | | | | |
| Building and Improvements | \$ 2,388,009 | \$ - | \$(354,401) | \$ 2,033,608 |
| Equipment and Software | 438,376 | 36,223 | - | 474,599 |
| Total Depreciable Capital Assets | <u>2,826,385</u> | <u>36,223</u> | <u>(354,401)</u> | <u>2,508,207</u> |
| Less Accumulated Depreciation: | | | | |
| Building and Improvements | (381,396) | (52,064) | 2,272 | (431,188) |
| Equipment and Software | (366,950) | (24,275) | - | (391,225) |
| Total Accumulated Depreciation | <u>(748,346)</u> | <u>(76,339)</u> | <u>2,272</u> | <u>(822,413)</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>\$ 2,197,039</u> | <u>\$ (40,116)</u> | <u>\$ (352,129)</u> | <u>\$ 1,804,794</u> |

During fiscal year June 30, 2015, the District reported depreciation expense of \$76,338.

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. The District made \$19,956 in contributions to the retirement plan for the year ended June 30, 2015.

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, 2015 as follows:

| | <u>June 30, 2015</u> |
|---|-------------------------|
| Accrued vacation - beginning of year | \$ 2,263 |
| Additions | 46,252 |
| Deletions | (14,295) |
| Accrued vacation - end of year | <u>\$ 34,219</u> |

Of the \$34,219 balance, an estimated \$34,219 is due within one year.

NOTE I – Prior Period Restatement

The District recalculated the beginning balance of accounts receivables as of July 1, 2014 and made payments to insurance companies for insurance premiums that covered prior years. The correction resulted in a \$755,322 decrease in net assets.

| | <u>As Previously Reported</u> | <u>Restatement</u> | <u>As Restated</u> |
|-------------------------|-----------------------------------|--------------------|--------------------|
| Patient receivable, net | \$ 788,895 | \$ (697,008) | \$ 91,887 |
| Accounts payable | (12,457) | (58,314) | (70,771) |
| Total net position | 9,492,314 | (755,322) | 8,736,992 |

NOTE J – Subsequent Events

The District has evaluated subsequent events through October 9, 2015, 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, 2015

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL AMOUNTS | Variance Positive (Negative) |
|--------------------------------------|---------------------|---------------------|---------------------|------------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 1,394,152 | \$ 1,394,152 | \$ 1,820,947 | \$ 426,795 |
| Charges for services | 320,100 | 320,100 | 331,254 | 11,154 |
| Investment earnings | - | - | 3,257 | 3,257 |
| Miscellaneous | 143,100 | 143,100 | 180,257 | 37,157 |
| Total revenues | \$ 1,857,352 | \$ 1,857,352 | \$ 2,335,715 | \$ 478,363 |
| EXPENSES | | | | |
| Personnel services | 615,000 | 615,000 | 873,045 | (258,045) |
| Contractual services | 289,000 | 289,000 | 332,408 | (43,408) |
| Utilities | 33,500 | 33,500 | 37,275 | (3,775) |
| Repairs and maintenance | 35,000 | 35,000 | 15,572 | 19,428 |
| Other supplies and expenses | 130,500 | 130,500 | 164,107 | (33,607) |
| Insurance claims and expenses | 90,000 | 90,000 | 159,476 | (69,476) |
| Capital Outlay | | | | |
| Equipment purchase | 6,600 | 6,600 | 36,222 | (29,622) |
| Total expenses | \$ 1,199,600 | \$ 1,199,600 | \$ 1,618,105 | \$ (418,505) |
| Revenues over expenses | \$ 657,752 | \$ 657,752 | \$ 717,610 | \$ 59,858 |
| OTHER FINANCING SOURCES | | | | |
| Prior year cash balance | 3,452,297 | 3,452,297 | - | |
| Total other financing sources | \$ 3,452,297 | \$ 3,452,297 | - | |
| Net change in fund balances | \$ 4,110,049 | \$ 4,110,049 | 717,610 | |
| Reconciliation to GAAP Basis: | | | | |
| Depreciation expense | | | (76,338) | |
| Bad debt expense | | | (107,778) | |
| Equipment purchased | | | 36,223 | |
| Proceeds on sale of building | | | (139,683) | |
| Loss on sale of building | | | (212,446) | |
| Change In: | | | | |
| Property tax receivable | | | (36,460) | |
| Accounts receivable | | | 222,482 | |
| Other receivables | | | (3,000) | |
| Accounts payable | | | 25,169 | |
| Accrued liabilities | | | 197,288 | |
| Patient over-payments | | | (45,750) | |
| Increase in net position | | | \$ 577,317 | |

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, 2015

| Name of Depository | Type | CUSIP # | Description of Pledged Collateral | Fair Market Value June 30, 2015 | Name and Location of Safekeeper |
|---------------------------------|------|-----------|--|---------------------------------|--|
| James Polk Stone Community Bank | Bond | 31359M2D4 | FNMA Due 12/15/2016 | \$ 2,124,460 | The Independent Bankers Bank, Texas |
| James Polk Stone Community Bank | Bond | 3135G0GY3 | FNMA NON CALLABLE Due 1/30/2017 | 1,009,464 | The Independent Bankers Bank, Texas |
| James Polk Stone Community Bank | Bond | 3135G0SB0 | FNMA NON CALLABLE FR Due 12/21/2015 | <u>1,000,764</u> | The Independent Bankers Bank, Texas |
| Total | | | | <u>\$ 4,134,688</u> | |

The accompanying notes are an integral part of these statements.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF DEPOSIT ACCOUNTS

June 30, 2015

| Name of Depository | Account Name | Account Type | Bank Balance | Reconciled Balance |
|---------------------------------|----------------------------------|---------------------|----------------------------|----------------------------|
| James Polk Stone Community Bank | Operational | Checking | <u>\$ 4,172,129</u> | <u>\$ 4,165,426</u> |
| Depository Cash Total | | | 4,172,129 | 4,165,426 |
| Cash on Hand | | | <u>1,220</u> | <u>1,220</u> |
| Cash Total | | | <u>\$ 4,173,349</u> | <u>\$ 4,166,646</u> |
| Lea County State Bank | Eunice Special Hospital District | CD | \$ 203,749 | \$ 203,749 |
| Pioneer Bank | Eunice Special Hospital District | CD | 208,910 | 208,910 |
| New Mexico State Treasurer | Eunice Health Clinic District | LGIP | <u>2,798,878</u> | <u>2,798,878</u> |
| Investments Total | | | <u>\$ 3,211,537</u> | <u>\$ 3,211,537</u> |

The accompanying notes are an integral part of these statements.



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

Mr. Tim Keller
New Mexico State Auditor
Eunice Special Hospital District Officials
Eunice, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the budgetary comparison statement of Eunice Special Hospital District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2015.

We were unable to express an opinion on the Statement of Revenue, Expenses, and Changes in Fund Net Position of the business-type activities, the Statement of Cash Flows and the budgetary comparison because their insufficient accounting records as of and for the year ended June 30, 2014 to substantiate beginning balances. 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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 responses to be material weaknesses (2010-001, 2010-002, and 2010-007).

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 responses to be significant deficiencies (2007-004 and 2011-002).

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 responses as items 2012-002, 2013-006, 2014-001, 2014-002, 2015-001, 2015-002, 2015-003, and 2015-004.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hobbs, New Mexico
October 9, 2015

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2007-004 Preparation of Financial Statements (Repeated)
(FORMERLY 07-04) - Significant Deficiency

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: The annual audit report will be reviewed by Kay Flannery, CPA. The District will be responsible for ensuring Shayla Williams, finance specialist, will receive training during fiscal year 2016 over financial reporting.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2010-001
(FORMERLY 10-01)**

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

Condition:

The District was unable to provide deposit slips for 1 deposit totaling \$25.00 out of the 25 deposits totaling \$1,514.38 selected for testwork. Deposits were selected from the account financial history by service date report for testing. Also the client was unable to provide documentation of services provided (encounters) and documentation of insurance claims filed (EOBs) for 1 deposits totaling \$80.38 out of the 25 deposits totaling \$1,514.38 selected for testwork.

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.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2010-001 (FORMERLY 10-01) Lack of Support for Receipts (Modified and Repeated) - Material Weakness (Continued)

Cause: At the beginning of the year, the District was not following the procedures in place to appropriately keep track of deposits, encounters, and EOBs that are made to support transactions and keep a proper audit trail.

Recommendation: We recommend the District follow the procedures in place for record retention.

Management Response: Management has hired a finance specialist Shayla Williams. Shayla is responsible for keeping all deposit slips available if needed.

Management has Elma Romero, who is our billing specialist. She is responsible for all of the insurance EOB's and encounters that are kept in patients' files. We have hired an outside billing service Greenway that will handle all of our billing. Elma will still be responsible for everything mentioned above.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2010-002
(FORMERLY 10-02)**

**Identifying Receipts Recorded 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 2 items totaling \$131.97 out of 25 items totaling \$1,514.38 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:

At the beginning of the fiscal year, employees were not following the procedures in place for reconciling and reporting cash receipts. Employees were not consistently printing the Summary by Practitioner Report which shows a detail of patient charges and payments received on patient accounts that occurred during the day.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2010-002
(FORMERLY 10-02)**

**Identifying Receipts Recorded in the
General Ledger (Modified and Repeated) -
Material Weakness (Continued)**

Recommendation:

The District put procedures in place to support the amounts recorded in the general ledger in August 2014. We recommend the District continue to follow the procedures in place for reconciling and reporting cash receipts.

Management Response:

We have determined specific reports from the medical billing program to be used to tie receipts to the bank statements, bank deposit reports, and cash receipt entries into the general ledger. We will continue to fine-tune this process and document how it is done and should be completed each month.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2010-007
(FORMERLY 10-07)**

**Missing Receivables Information (Modified
and Repeated) - Material Weakness**

| | |
|----------------------|---|
| Condition: | The client could not provide documentation of insurance claims filed (EOBs) for 12 out of the 25 receivables tested. The client could not provide documentation for record of service for 2 out of the 25 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 for those items which the client could not provide support. |
| 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 the billing specialist, Elma Romero who is responsible for all EOB's and filed insurance claims in patients' files. |

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2011-002
(FORMERLY 11-02)**

**Compare Budget to Actual Results (Modified
and Repeated) - Significant Deficiency**

Condition:

The District prepares budgets annually, but they are not regularly reviewed and compared to actual results by management and the Board of Trustees.

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:

A third party consultant inputs the budget into the accounting software and has the capability to print the budget to actual reports, but management and the Board of Trustees currently do not utilize and review these comparisons.

Recommendation:

We recommend 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:

As of June 12, 2015, the Board of Trustees reviews the budget report and discusses any variances. The Board of Trustees also approves the finance reports.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2012-002 Time Card Authorization (Modified and Repeated) - Other Matter (FORMERLY 12-02)

Condition: During our audit, it was noted that 5 of the 25 items tested during payroll test work did not have the clinic manager's signature indicating approval.

Criteria: Time cards support the District's labor expenses and should be properly authorized.

Effect: Employees could inaccurately complete the time cards without the supervisor's knowledge.

Cause: At the beginning of the fiscal year, the District did not require approval on time cards; however, beginning September 2014, the clinic manager began approving time cards.

Recommendation: We recommend the District continue to follow the adopted procedure of management approving time cards before payroll checks are issued.

Management Response: Effective September 1, 2014 Le'Ann Reaves, the clinic manager is responsible for approval of all time cards and signs each one before payroll checks are issued by Shayla Williams.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

**SCHEDULE REFERENCE NUMBER: 2013-006
(FORMERLY 13-06)**

**Bank Deposits Under Collateralized (Modified
and Repeated) - Other Matter**

Condition:

The District did not have pledged collateral from July 1, 2014 through November 27, 2014.

Criteria:

Section 6-10-17 NMSA 1978 requires that "any financial institution designated as a depository of public money shall deliver securities having an aggregate value of at least one-half the amount of public money to be deposited to a custodial bank. In addition, the District's policy requires 103% collateral of market value on the deposits on amounts greater than the FDIC coverage.

Effect:

The District's deposits were not properly collateralized from July 1, 2014 through November 27, 2014.

Cause:

The District did not obtain agreements for collateral needed in excess of FDIC coverage from July 1, 2014 through November 27, 2014.

Recommendation:

We are aware the District had collateral pledged for deposits from November 28, 2014 through June 30, 2015. We recommend the District continuously review pledged collateral to ensure the District remains in compliance.

Management Response:

As of November 2014, JP Stone has the District as a pledged account. Management is receiving monthly reports. Kay Flannery reviews the monthly reports.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2014-001 Expenditures in Excess of Budget (Modified and Repeated) - Other Matter

Condition: The District has expenditures in excess of approved budgetary appropriations in the amount of \$418,505 for the year ended June 30, 2015.

Criteria: Annual budgets of the District 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. Line items within the budget may be over-expended; however, it is not legally permissible to over-expend the budget in total.

Effect: As a result, the control established by the use of budgets has been compromised. Continued over-expenditure of budgeted balances may result in unnecessary usage of operating funds to absorb over-expenditures.

Cause: Inadequate monitoring of the budget resulted in a failure to propose budgetary adjustments required to prevent over expenditure

Recommendation: Budgets in future years should be periodically reviewed so that budget adjustments can be made as necessary.

Management Response: The District operates only one operating budget which is approved each year by the local government division of the Department of Finance and Administration. Each budget reflects ample ending cash balances to cover the required reserve requirements and any expenditures in excess of budgeted revenues. The District's Finance Officer will monitor the third-quarter and fourth-quarter budget reports to LGD and if necessary will prepare the appropriate resolutions for adoption by the Board of Trustees during the Board's adoption of the final budget.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2014-002 Procurement Policy (Repeated) - Other Matter

Condition: During the test of controls for disbursements, JMCO noted 19 disbursements totaling \$45,113.10 out of 25 disbursements totaling \$46,954.24 selected for testing did not have the proper approval. Additionally, JMCO noted 16 disbursements totaling \$44,951.79 out of the 25 disbursements totaling \$46,954.24 did not have a complete requisition form.

Criteria: NMAC 1.4.1.50 allows state purchasing agents to procure construction or items of tangible personal property having a value not exceeding \$20,000 by issuing a direct purchase order to a contractor based up the best obtainable price and in accordance with any procedures or processes set forth by the state purchasing agent.

Per the District's procurement policy approved and adopted on May 12, 2003, a requisition form with three verbal quotes and justification for the purchase is required for all purchases exceeding \$100.00. All purchases over \$100.00 must be approved by the Board of Trustees or their designee. All purchases over \$5,000 require three written quotes. All purchases over \$10,000 shall be advertised for sealed bids.

NMAC 1.4.1.51 state if three written quotes cannot be obtained, the agency shall document the reason and include the document in the procurement file. Such notations as "does not carry" or "did not return my phone call" do not qualify as a valid quotation.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2014-002 Procurement Policy (Repeated) - Other Matter (Continued)

Effect: The District is not following the controls in place to prevent and detect misstatements on a timely basis.

Cause: Management is not following the District's adopted procurement policy.

Recommendation: We recommend the District review the current adopted procurement policy and revise the policy to reflect current procurement procedures ensuring that the District's policies, at minimum, include the procurement policies as required by the State Auditor.

Management Response: Over the past couple of years Lea County has experienced tremendous growth resulting in a shortage of construction trades. Because of this shortage the District has had a very difficult time finding any of this type vendor to do a job, let alone bid or quote a job.

The appointment of a certified central purchasing agent will help to better document and clarify this issue. The Board of Trustees will appoint and vote for a Chief Procurement Officer at the November 2015 meeting. This person will be tasked with reviewing and updating the procurement policies and procedures. The Board will determine the timeline they wish this to be accomplished but at minimum before the end of the third quarter.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2015-001 **Written Notification to State Auditor for Disposal of Assets - Other Matter**

Condition: The District's did not send a written notification to the State Auditor for the disposal of the pharmacy building.

Criteria: At lease thirty (30) days prior to any disposition of property on the agency inventory list described in Subsection V of Section 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent the State Auditor.

Effect: The District did not comply with the State Auditor Rule.

Cause: The District did not send a written notification to the State Auditor for the disposal of the pharmacy building.

Recommendation: We recommend the District send a written notification to the State Auditor's office at least 30 days prior to the disposal of assets.

Management Response: This transaction was handled by the District's attorney and approved by a vote of the State Board of Finance after several meetings with their staff and attorneys.

Future disposal of property will include notification to the State Auditor by the Chief Procurement Officer.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2015-002 Vendor Payment Prior to Receipt of Invoice - Other Matter

Condition: During our test of controls of disbursements, we noted 1 out of 40 disbursements tested totaling \$1,000 was paid for services prior to receiving an invoice.

Criteria: Per the District's procurement policy approved and adopted on May 12, 2003, a requisition form with three verbal quotes and justification for the purchase is required for all purchases exceeding \$100.00. All purchases over \$100.00 must be approved by the Board of Trustees or their designee.

NMAC 1.4.1.51 state if three written quotes cannot be obtained, the agency shall document the reason and include the document in the procurement file. Such notations as "does not carry" or "did not return my phone call" do not qualify as a valid quotation.

Effect: Fraudulent payments to vendors and error in payments to vendors could occur without proper approval of payments.

Cause: The vendor requested payment after services were rendered prior to having an invoice ready. Management did not review supporting documentation for the expenditure prior to signing the check as part of their approval process.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2015-002 Vendor Payment Prior to Receipt of Invoice - Other Matter (Continued)

Recommendation:

The District should follow their established policy for approval of vendor payments.

Management Response:

The appointment of a certified central purchasing agent will help to better document and clarify this issue. The Board of Trustees will appoint and vote for a Chief Procurement Officer at the November 2015 meeting. This person will be tasked with reviewing and updating the procurement policies and procedures. The Board will determine the timeline they wish this to be accomplished but at minimum before the end of the third quarter.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

SCHEDULE REFERENCE NUMBER: 2015-004 Medicare Accreditation Failure - Other Matter

Condition: On April 29, 2015, the District was denied accreditation from the American Association For Accreditation of Ambulatory Surgery Facilities, Inc.

Criteria: The District's Bylaws state, "Quality healthcare services shall include licensure, certification, and/or accreditation as appropriate."

Effect: The District will not be reimbursed by Medicare for services provided to patients with Medicare.

Cause: During the accreditation survey conducted by the American Association For Accreditation of Ambulatory Surgery Facilities, Inc. on April 29, 2015, the District had 37 deficiencies.

Recommendation: We recommend the District correct all the deficiencies found by the Accreditation of Ambulatory Surgery Facilities, Inc.

Management Response: The clinic manager is in the process of updating the Medical Policy and Procedures Manual, which was identified as a deficiency in the survey.

The clinic is operating with the Certified Family Nurse Practitioners due to the difficulty of obtaining physicians in our area. The clinic manager is working with CMS and NM Rural Health Association to obtain Medicare approval using the provider numbers of our CFNPs. We hope to have this accomplished before the third quarter of fiscal year 2016.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS

June 30, 2015

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 2007-004 on page 30.

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF STATUS OF PRIOR FINDINGS

| | |
|----------------------------------|---|
| <u>2007-004</u> (FORMERLY 07-04) | Preparation of Financial Statements – Repeated |
| <u>2010-001</u> (FORMERLY 10-01) | Lack of Support for Receipts – Modified and Repeated |
| <u>2010-002</u> (FORMERLY 10-02) | Identifying Receipts Recorded in the General Ledger – Modified and Repeated |
| <u>2010-003</u> (FORMERLY 10-03) | Accrued Compensation – Resolved |
| <u>2010-005</u> (FORMERLY 10-05) | Payroll Timesheets – Resolved |
| <u>2010-007</u> (FORMERLY 10-07) | Missing Receivables Information – Modified and Repeated |
| <u>2010-008</u> (FORMERLY 10-08) | Incorrect Expense Code in General Ledger – Resolved |
| <u>2010-010</u> (FORMERLY 10-10) | Late Report – Resolved |
| <u>2011-002</u> (FORMERLY 11-02) | Compare Budget to Actual Results – Modified and Repeated |
| <u>2011-003</u> (FORMERLY 11-03) | Closing Procedures – Resolved |
| <u>2011-004</u> (FORMERLY 11-04) | Establish Allowance for Doubtful Accounts - Resolved |
| <u>2011-006</u> (FORMERLY 11-06) | Inventory Fixed Assets - Resolved |
| <u>2011-009</u> (FORMERLY 11-09) | Prepare More Accurate Monthly Financial Statements – Resolved |
| <u>2011-012</u> (FORMERLY 11-12) | Payroll Timesheets – Resolved |
| <u>2012-001</u> (FORMERLY 12-01) | Deduction Authorization Forms – Resolved |
| <u>2012-002</u> (FORMERLY 12-02) | Time Card Authorization – Modified and Repeated |
| <u>2012-003</u> (FORMERLY 12-03) | Fraudulent Credit Card Purchases – Resolved |
| <u>2013-001</u> (FORMERLY 13-01) | Payroll Taxes – Resolved |
| <u>2013-003</u> (FORMERLY 13-03) | Maintain a Schedule of Fixed Asset Additions – Resolved |
| <u>2013-004</u> (FORMERLY 13-04) | Missing W-4 – Resolved |
| <u>2013-005</u> (FORMERLY 13-05) | Pay Rate Approvals – Resolved |
| <u>2013-006</u> (FORMERLY 13-06) | Bank Deposits Under Collateralized – Modified and Repeated |
| <u>2013-007</u> (FORMERLY 13-07) | Late Submission of IPA Recommendation and Audit Contract – Resolved |

EUNICE SPECIAL HOSPITAL DISTRICT

SCHEDULE OF STATUS OF PRIOR FINDINGS (Continued)

| | |
|-----------------|--|
| <u>2014-001</u> | Expenditures in Excess of Budget – Modified and Repeated |
| <u>2014-002</u> | Procurement Policy - Repeated |
| <u>2014-003</u> | Difference in Reported Wages and Actual Wages - Resolved |

EUNICE SPECIAL HOSPITAL DISTRICT

OTHER DISCLOSURES

For the year ended June 30, 2015

EXIT CONFERENCE

An exit conference was conducted on October 9, 2015 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 |
| Le'Ann Reeves | Clinic Manager |
| Mary Hinds, CPA | Audit Director |