

# **Eunice Special Hospital District**

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2017 and 2016



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Eunice Special Hospital District  
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## **INTRODUCTORY SECTION**

**Eunice Special Hospital District  
Board of Trustees and Principal Employee  
June 30, 2017**

*Board of Trustees*

Charles Hobbs, Jr.	Chairman
Shannon Cummins	Vice Chairman
Barbara Baggett	Secretary/Treasurer
Billy W. Turner	Member
Wiberta Tivis	Member

*Principal Employee*

Le' Ann Reaves	Clinic Manager
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**FINANCIAL SECTION**



**DINGUS | ZARECOR & ASSOCIATES PLLC**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Trustees and Management of  
Eunice Special Hospital District and  
Mr. Timothy Keller, New Mexico State Auditor  
Eunice, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Eunice Special Hospital District (the District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2017, presented as supplemental information 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 auditors consider 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 and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 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 audits 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements and schedule of revenues and expenses – budget to actual. The schedule of pledged collateral and schedule of individual deposit and investment accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral and schedule of individual deposit and investment accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, 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. We issued a similar report for the year ended June 30, 2016, dated October 11, 2016, which has not been included with the 2017 financial and compliance report. The purpose of those reports 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 internal control over financial reporting or on compliance. Those reports are 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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington

October 6, 2017



**Eunice Special Hospital District  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016**

Our discussion and analysis of Eunice Special Hospital District's (the District) financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the District's financial statements, which begin on page 9.

**Financial Highlights**

- The District's net position increased in each of the past two years with a \$463,050 or 4.8 percent increase in 2017 and a \$292,767 or 3.1 percent increase in 2016.
- The District reported an increase in operating losses in 2017 of \$62,115 or 5.1 percent as compared to the 2016 increase in operating loss of \$220,974 or 22.1 percent.
- Nonoperating revenues increased by \$300,830 or 20.8 percent in 2017 compared to 2016. Nonoperating revenues decreased by \$132,011 or 8.4 percent in 2016 compared to 2015.

**Using This Annual Report**

The District's financial statements consist of three statements — a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

**The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

Our analysis of the District's finances begins on page 6. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position — the difference between assets and liabilities — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from? What was cash used for? What was the change in cash balance during the reporting period?"

**Eunice Special Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**The District's Net Position**

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 9. The District's net position increased in each of the past two years by \$463,050 (4.8 percent) in 2017 and \$292,767 (3.1 percent) in 2016, as shown in Table 1.

**Table 1. Assets, Liabilities, and Net Position**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<i>Assets</i>			
Current assets	\$ <b>8,505,128</b>	\$ 7,925,350	\$ 7,657,853
Capital assets, net	<b>1,677,713</b>	1,763,032	1,804,795
<b>Total assets</b>	<b>\$ 10,182,841</b>	\$ 9,688,382	\$ 9,462,648
<i>Liabilities and net position</i>			
Current liabilities	\$ <b>112,717</b>	\$ 81,308	\$ 148,341
Total liabilities	<b>112,717</b>	81,308	148,341
<i>Net position</i>			
Net investment in capital assets	<b>1,677,713</b>	1,763,032	1,804,795
Unrestricted	<b>8,392,411</b>	7,844,042	7,509,512
Total net position	<b>10,070,124</b>	9,607,074	9,314,307
<b>Total liabilities and net position</b>	<b>\$ 10,182,841</b>	\$ 9,688,382	\$ 9,462,648

A significant component of the change in the District's assets is the decrease in patient accounts receivable. Although operating revenues increased in 2017 by \$44,872, or 19.4 percent, patient accounts receivable, net of uncollectible amounts, still decreased by \$23,563 or 63.9 percent. In addition, patient service revenue increased by \$41,009 in 2017 compared to 2016. In both cases, the decrease in accounts receivable is primarily the result of improvements to the patient collections.

**Eunice Special Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Operating Results and Changes in the Hospital's Net Position**

In 2017, the District's net position increased by \$463,050 or 4.8 percent, as shown in Table 2. This increase is made up of very different components and it represents an increase as compared to the 3.1 percent increase in net position of \$292,767 in 2016.

**Table 2. Operating Results and Changes in Net Position**

	2017	2016	2015
<i>Operating revenues</i>			
Net patient service revenue	\$ 263,877	\$ 222,868	\$ 400,206
Other operating revenue	11,734	7,871	37,574
Total operating revenues	<b>275,611</b>	230,739	437,780
<i>Operating expenses</i>			
Salaries, wages, and benefits	911,154	868,970	776,914
Professional fees	320,842	287,541	332,406
Depreciation	105,877	71,201	76,338
Other operating expenses	218,805	221,979	250,100
Total operating expenses	<b>1,556,678</b>	1,449,691	1,435,758
<i>Operating loss</i>	<b>(1,281,067)</b>	(1,218,952)	(997,978)
<i>Nonoperating revenues (expenses)</i>			
Tax revenue	1,734,997	1,526,529	1,784,487
Investment income	9,120	10,020	3,257
Loss on disposal of capital assets	-	(93,262)	(212,446)
Total nonoperating revenues, net	<b>1,744,117</b>	1,443,287	1,575,298
Capital grant	-	68,432	-
Change in net position	<b>463,050</b>	292,767	577,320
Net position, beginning of year	<b>9,607,074</b>	9,314,307	8,736,987
<b>Net position, end of year</b>	<b>\$ 10,070,124</b>	\$ 9,607,074	\$ 9,314,307

**Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows**

The first component of the overall change in the District's net position is its operating loss—generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the District has reported an operating loss. This is consistent with the District's entire operating history. The District's hospital operations were begun in 2003 as a special hospital district, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower income residents. However, in each of the past two years, operating losses have increased. Losses in 2017 increased by \$62,115, or 5.1 percent higher than the loss reported in 2016. Losses in 2016 increased by \$220,974, or 22 percent higher than the loss reported in 2015.

**Eunice Special Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows  
(continued)**

The primary components of these increased operating losses are:

- An increase in net patient revenue of \$41,009, or 18.4 percent, in 2017. Gross revenues in 2017 were roughly the same as in the previous year.
- Increases in salary and benefit costs for the District's employees (\$42,184, or 4.9 percent, in 2017 and \$92,056, or 11.8 percent, in 2016, respectively).
- Increase in professional fees of \$33,301, or 11.6%, in 2017.
- Decreases in expenses for repairs and maintenance expense offset the increase in salaries and benefits expenses.

The District sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the District when it was established in 2003. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the District.

Nonoperating revenues consist primarily of property taxes levied by the District and interest revenue and investment earnings. Property tax levy is primarily dependent on gas and oil production and prices which were both down compared to prior years.

**Capital Asset**

At the end of 2017 and 2016, the District had \$1,677,713 and \$1,763,032, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2017, the District purchased new equipment costing \$20,558 to replace aging equipment.

**Currently Known Facts, Decisions, and Conditions**

The County's largest employers are oil and gas production companies. Operations in the entire area have slowed due to price and demand of products.

**Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Le'Ann Reaves, Clinic Manager, Eunice Special Hospital District, P.O. Box 220, Eunice, New Mexico 88231.

**Eunice Special Hospital District  
Statements of Net Position  
June 30, 2017 and 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,662,924	\$ 3,074,148
Investments	4,730,677	4,721,557
Receivables:		
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$17,000 and \$14,000, respectively	13,288	36,851
Taxes	71,113	52,161
Prepaid expenses	27,126	40,633
<b>Total current assets</b>	<b>8,505,128</b>	<b>7,925,350</b>
<i>Noncurrent assets</i>		
Capital assets, net	1,677,713	1,763,032
<b>Total noncurrent assets</b>	<b>1,677,713</b>	<b>1,763,032</b>
<b>Total assets</b>	<b>\$ 10,182,841</b>	<b>\$ 9,688,382</b>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 52,856	\$ 21,568
Accrued compensation and related liabilities	59,861	59,740
<b>Total current liabilities</b>	<b>112,717</b>	<b>81,308</b>
<i>Net position</i>		
Net investment in capital assets	1,677,713	1,763,032
Unrestricted	8,392,411	7,844,042
<b>Total net position</b>	<b>10,070,124</b>	<b>9,607,074</b>
<b>Total liabilities and net position</b>	<b>\$ 10,182,841</b>	<b>\$ 9,688,382</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$48,000 and \$112,000, respectively	\$ 263,877	\$ 222,868
Other	11,734	7,871
<b>Total operating revenues</b>	<b>275,611</b>	<b>230,739</b>
<i>Operating expenses</i>		
Salaries and wages	703,042	675,482
Employee benefits	208,112	193,488
Professional fees	320,842	287,541
Supplies	44,471	37,194
Utilities	32,411	32,715
Repairs and maintenance	23,393	48,815
Depreciation	105,877	71,201
Insurance	46,360	26,172
Other	72,170	77,083
<b>Total operating expenses</b>	<b>1,556,678</b>	<b>1,449,691</b>
<b>Operating loss</b>	<b>(1,281,067)</b>	<b>(1,218,952)</b>
<i>Nonoperating revenues (expenses)</i>		
Tax revenue	1,734,997	1,526,529
Investment income	9,120	10,020
Loss on disposal of capital assets	-	(93,262)
<b>Total nonoperating revenues, net</b>	<b>1,744,117</b>	<b>1,443,287</b>
Excess of revenues over expenses before capital grant	463,050	224,335
Capital grant	-	68,432
Change in net position	463,050	292,767
Net position, beginning of year	9,607,074	9,314,307
<b>Net position, end of year</b>	<b>\$ 10,070,124</b>	<b>\$ 9,607,074</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 287,440	\$ 392,609
Cash received from other revenue	11,734	12,194
Cash paid to and on behalf of employees	(911,033)	(866,219)
Cash paid to suppliers and contractors	(494,852)	(619,322)
Net cash used in operating activities	<b>(1,106,711)</b>	<b>(1,080,738)</b>
<i>Cash flows from noncapital financing activities</i>		
Cash received from tax revenues	<b>1,716,045</b>	1,542,509
<i>Cash flows from capital and related financing activities</i>		
Cash received from capital grant	-	68,432
Purchase of capital assets	(20,558)	(122,700)
Net cash used in capital and related financing activities	<b>(20,558)</b>	<b>(54,268)</b>
<i>Cash flows from investing activities</i>		
Purchase of investments	(9,120)	(1,510,020)
Interest received	9,120	10,020
Net cash used in investing activities	-	(1,500,000)
Net increase (decrease) in cash and cash equivalents	<b>588,776</b>	<b>(1,092,497)</b>
Cash and cash equivalents, beginning of year	<b>3,074,148</b>	<b>4,166,645</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,662,924</b>	<b>\$ 3,074,148</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2017 and 2016**

	2017	2016
<b><i>Reconciliation of operating loss to net cash used in operating activities</i></b>		
Operating loss	\$ (1,281,067)	\$ (1,218,952)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation	105,877	71,201
Provision for bad debts	(48,427)	(112,336)
Decrease (increase) in assets:		
Receivables:		
Patient accounts	71,990	282,077
Other	-	4,323
Prepaid expenses	13,507	(40,018)
Increase (decrease) in liabilities:		
Accounts payable	31,288	(69,784)
Accrued compensation and related liabilities	121	2,751
<b>Net cash used in operating activities</b>	<b>\$ (1,106,711)</b>	<b>\$ (1,080,738)</b>

*See accompanying notes to basic financial statements.*



**Eunice Special Hospital District  
Notes to Basic Financial Statements  
Years Ended June 30, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Eunice Special Hospital District (the District) is a dedicated outpatient clinic located in Eunice, New Mexico. The District provides clinic, laboratory, and radiology services to residents of Lea County (the County). The District is governed by the Board of Trustees consisting of five members. The District is not a component unit of another government entity. The District has no component units.

**b. Summary of Significant Accounting Policies**

*Use of estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Enterprise fund accounting* – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – Cash and cash equivalents include business checking accounts and cash on hand.

*Prepaid expenses* – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

*Accrued compensation and related liabilities* – The liability for compensated absences consists of unpaid, accumulated annual personal leave balances. The liability has been calculated using the vesting method, whereby leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Employees can accumulate 160 hours throughout the year and upon termination they will be paid out all vacation hours earned. Additionally, the liability for accrued compensation included unpaid, accumulated wages earned.

*Restricted resources* – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

*Net position* – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. The District had no restricted net assets as of June 30, 2017 or 2016. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Operating revenues and expenses* – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

*Grants and contributions* – From time to time, the District receives grants from the State of New Mexico, the City of Eunice and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

*Budgets and budgetary accounting* – Prior to the beginning of each fiscal year, an accrual basis budget for the District is prepared by the District’s management and is presented to the Board of Trustees for approval. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Trustees.

*Subsequent events* – The District has evaluated subsequent events through October 6, 2017, the date on which the financial statements were available to be issued.

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**2. Deposits and Investments:**

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it.

The District's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. In accordance with Section 6-10-17 NMSA 1978 Compilation, the District is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

The District's total deposits as of June 30, 2017 and 2016, totaled \$4,092,649 and \$3,502,155, respectively. At June 30, 2017 and 2016, the collateralized balance exceeded the minimum FDIC coverage and collateral requirement by a total of \$2,189,268 and \$1,626,382, respectively.

Statutes authorize the District to invest in obligations of the United States (U.S.) Treasury, agencies, and instrumentalities, commercial paper, and bankers' acceptances.

**Local Government Investment Pool** – The District may legally invest in direct obligations of the United States government and any other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities; commercial paper rated not less than Grade "A" by a national rating service; bonds or other obligations issued by the State of New Mexico; the State Treasurer's New MexiGrow Local Government Investment Pool (the Pool); and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities.

The Pool is not Securities and Exchange Commission 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 agencies sponsored by the United States government. The Pool's 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. According to 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's amounts were invested. Participation in the Pool is voluntary.

**Fair Value** – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017 and 2016:

- Investments in government debt securities of \$1,408,995 and \$1,127,934, respectively, are valued using quoted market prices (Level 1 inputs)
- Certificates of deposit funds of \$414,151 and \$413,082, respectively (Level 2 inputs)

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**2. Deposits and Investments (continued):**

The District's investments are as follows:

	2017					
	Fair Value	Investment Maturities (in Years)			More than Ten	Investment Ratings
		Less Than One	One to Five	Six to Ten		
<i>Held by State of New Mexico</i>						
New MexiGrow Local Government Investment Pool	\$ 2,819,164	\$ 2,819,164	\$ -	\$ -	\$ -	AAAm
<i>Lea County State Bank</i>						
Certificates of Deposit	204,408	204,408	-	-	-	Not applicable
<i>Pioneer Bank</i>						
Certificates of Deposit	209,743	209,743	-	-	-	Not applicable
<i>Fidelity Investments</i>						
Money Market	88,367	88,367	-	-	-	Not applicable
Investment in governmental debt mutual funds	1,408,995	1,408,995	-	-	-	AAA
<b>Total investments</b>	<b>\$ 4,730,677</b>	<b>\$ 4,730,677</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
2016						
	Fair Value	Investment Maturities (in Years)			More than Ten	Investment Ratings
		Less Than One	One to Five	Six to Ten		
<i>Held by State of New Mexico</i>						
New MexiGrow Local Government Investment Pool	\$ 2,805,494	\$ 2,805,494	\$ -	\$ -	\$ -	AAAm
<i>Lea County State Bank</i>						
Certificates of Deposit	203,961	203,961	-	-	-	Not applicable
<i>Pioneer Bank</i>						
Certificates of Deposit	209,121	209,121	-	-	-	Not applicable
<i>Fidelity Investments</i>						
Money Market	375,047	375,047	-	-	-	Not applicable
Investment in governmental debt mutual funds	1,127,934	1,127,934	-	-	-	AAA
<b>Total investments</b>	<b>\$ 4,721,557</b>	<b>\$ 4,721,557</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of these amounts:

	<b>2017</b>	<b>2016</b>
Receivable from patients and their insurance carriers	\$ 27,086	\$ 41,720
Receivable from Medicare	976	2,064
Receivable from Medicaid	1,931	7,486
Total patient accounts receivable	<b>29,993</b>	51,270
Less allowance for uncollectible accounts	<b>16,705</b>	14,419
<b>Net patient accounts receivable</b>	<b>\$ 13,288</b>	<b>\$ 36,851</b>

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**4. Capital Assets:**

In accordance with Section 12-6-10 NMSA 1987, the District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least one year. Capital asset acquisitions are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation.

All capital assets other than land and construction in progress are depreciated by the straight-line method of depreciation using these asset lives:

Buildings and improvements	40 years
Equipment	3 to 15 years

Capital asset additions, retirements, transfers, and balances were as follows:

	2017				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Land	\$ 119,000	\$ -	\$ -	\$ -	\$ 119,000
Total capital assets not being depreciated	119,000	-	-	-	119,000
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,943,730	-	-	-	1,943,730
Equipment	577,512	20,558	-	-	598,070
Total capital assets being depreciated	2,521,242	20,558	-	-	2,541,800
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(467,081)	(53,193)	-	-	(520,274)
Equipment	(410,129)	(52,684)	-	-	(462,813)
Total accumulated depreciation	(877,210)	(105,877)	-	-	(983,087)
Total capital assets being depreciated, net	1,644,032	(85,319)	-	-	1,558,713
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 1,763,032</b>	<b>\$ (85,319)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,677,713</b>

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**4. Capital Assets (continued):**

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
<i>Capital assets not being depreciated</i>					
Land	\$ 119,000	\$ -	\$ -	\$ -	\$ 119,000
Total capital assets not being depreciated	119,000	-	-	-	119,000
<i>Capital assets being depreciated</i>					
Buildings and improvements	2,033,608	19,787	(109,665)	-	1,943,730
Equipment	474,599	102,913	-	-	577,512
Total capital assets being depreciated	2,508,207	122,700	(109,665)	-	2,521,242
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(431,188)	(52,296)	16,403	-	(467,081)
Equipment	(391,224)	(18,905)	-	-	(410,129)
Total accumulated depreciation	(822,412)	(71,201)	16,403	-	(877,210)
Total capital assets being depreciated, net	1,685,795	51,499	(93,262)	-	1,644,032
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 1,804,795</b>	<b>\$ 51,499</b>	<b>\$ (93,262)</b>	<b>\$ -</b>	<b>\$ 1,763,032</b>

**5. Compensated Absences:**

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amount Due Within One Year</b>
Compensated absences	\$ 29,769	\$ 26,347	\$ (23,643)	\$ 32,473	\$ 32,473

  

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amount Due Within One Year</b>
Compensated absences	\$ 34,219	\$ 4,583	\$ (9,033)	\$ 29,769	\$ 29,769

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**6. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District had significant provisions for bad debts and writeoffs in 2016, due to billing issues that were corrected during that year. The District has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2017</b>	<b>2016</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 27,158	\$ 9,695
Medicaid/Centennial Care	33,763	79,582
Other third-party payors	166,293	141,813
Patients	85,090	104,114
	<b>312,304</b>	335,204
Less:		
Provision for bad debts	48,427	112,336
<b>Net patient service revenue</b>	<b>\$ 263,877</b>	<b>\$ 222,868</b>

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

- *Medicare* – Services rendered to Medicare program beneficiaries are paid on fee schedule.
- *Medicaid* – Services rendered to Medicaid program beneficiaries are paid on fee schedule.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes fee schedules, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue decreased by approximately \$31,000 and \$-0- in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

The District provides care to patients who are financially unable to pay for the healthcare services they receive using a sliding fee schedule without charge or at amounts less than established rates.



**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**6. Net Patient Service Revenue (continued):**

The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District did not recognize any costs of caring for charity care patients for the years ended June 30, 2017 and 2016. The District did not receive any gifts or grants to subsidize charity care services during 2017 or 2016.

**7. Taxes:**

The District is the recipient of mill levy taxes approved by the voters of Lea County every four years. The County serves as an agent to collect property taxes levied in the County for all taxing authorities and remits the District's share of the property taxes to the District. The current mill levy is in effect for property tax years 2015 through 2018. The District recorded tax levy proceeds of \$305,379 and \$255,935 in 2017 and 2016, respectively.

Mill levy property taxes are levied based on the assessed value of the property of the school district as well as on the value of oil and equipment. Mill levy property taxes are levied on November 1, based on the assessed value of property as listed on the previous January 1. Assessed values are established by the Lea County Assessor at 100% of fair market values. Taxes are due in two equal payments by November 10 and April 10 of each year. The taxes attach as an enforceable lien on property thirty days after their due date, at which time they become delinquent. The District's share of collections is distributed monthly to the District by the Treasurer of Lea County, who serves as the intermediary collecting agency.

Additionally, the District receives a share of the gross receipt taxes collected by Lea County relating to oil and gas production. The District recognized the related revenue in the amount of \$855,404 and \$923,414 in 2017 and 2016, respectively.

The Louisiana Energy Services issued an industrial revenue bond with Lea County under the agreement that the Louisiana Energy Services would pay taxes while the bond was in place. Lea County acts as the intermediary collection agency, distributing funds to the related entities. The District recorded related revenue of \$574,214 and \$347,180 in 2017 and 2016, respectively.

**8. Deferred Compensation Plan:**

The District sponsors and administers a defined contribution retirement plan. The Eunice Health Clinic 403(b) Plan (the Plan) is available to all full-time employees. The District matches employee contributions up to 5% of their gross salary. Employee contributions are 100% vested immediately and employer contributions become 100% vested after six months. Total employer and employee contributions to the Plan totaled approximately \$27,000 and \$25,000 each for the years ended June 30, 2017 and 2016, respectively.

The Plan is administered by the District. The District has the authority to amend the Plan.

**Eunice Special Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2017 and 2016**

**9. Risk Management and Contingencies:**

*Medical malpractice claims* – The District carries professional liability insurance coverage with American Casualty Company of Reading, Pennsylvania. The policies are held in the names of each covered provider and provide protection on a “by occurrence” basis whereby claims filed in the current year are covered by the effective policy at the time of occurrence. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$-0- deductible per claim.

*Risk management* – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

*Industry regulations* – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

**10. Concentration of Risk:**

*Patient accounts receivable* – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Lea County.

The mix of receivables from patients and third-party payors was as follows:

	<b>2017</b>	<b>2016</b>
Medicare	7 %	10 %
Medicaid	7	12
Patients	67	23
Commercial and other	19	55
	<b>100 %</b>	<b>100 %</b>

*Providers* – The District is dependent on local healthcare providers practicing in its service area to provide services on an outpatient basis. A decrease in the number of providers providing these services or changes in their utilization patterns may have an adverse effect on District’s operations.

**SUPPLEMENTAL INFORMATION**

**Eunice Special Hospital District  
Schedule of Pledged Collateral  
June 30, 2017**

	<b>The James Polk Stone Community Bank</b>	<b>Lea County State Bank</b>	<b>Pioneer Bank</b>
Deposits at June 30, 2017	\$ 3,678,498	\$ 204,408	\$ 209,743
Less: FDIC insurance	(250,000)	(250,000)	(250,000)
Uninsured public funds	3,428,498	(45,592)	(40,257)
Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name	3,903,517	-	-
Total uninsured and uncollateralized public funds	\$ -	\$ -	\$ -
50% pledged collateral requirement per statute	\$ 1,714,249	\$ -	\$ -
Total pledged collateral	3,903,517	-	-
<b>Pledged collateral over the requirement</b>	<b>\$ 2,189,268</b>	<b>\$ -</b>	<b>\$ -</b>
<b>The James Polk Stone Community Bank</b>			
FHLB - 3130A9QNA, matures October 27, 2028	\$ 988,088	\$ -	\$ -
FHLMC - 3134GAFP4, matures August 28, 2031	\$ 978,134	\$ -	\$ -
FHLMC - 3134GASPO, matures October 28, 2031	\$ 972,827	\$ -	\$ -
FHLMC - 3134GAFG4, matures August 22, 2013	\$ 964,468	\$ -	\$ -
<b>Total pledged securities</b>	<b>\$ 3,903,517</b>	<b>\$ -</b>	<b>\$ -</b>

*See accompanying independent auditors' report.*

**Eunice Special Hospital District  
Schedule of Individual Deposit and Investment Accounts  
June 30, 2017**

<b>Depository</b>	<b>Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Book Balance</b>
<b>Deposit Accounts</b>						
The James Polk Stone Community Bank	Operations	Checking	\$ 3,678,498	\$ -	\$ 15,674	\$ 3,662,824
<b>Cash on hand</b>	Petty cash	Petty cash	100	-	-	100
<b>Investments</b>						
State of New Mexico	Investment Portfolio	Local Government Investment Pool	2,819,164	-	-	2,819,164
Lea County State Bank	Investment - CD	Certificates of Deposit	204,408	-	-	204,408
Pioneer Bank	Investment - CD	Certificates of Deposit	209,743	-	-	209,743
Fidelity Investments	Investment Portfolio	Money Market	88,367	-	-	88,367
Fidelity Investments	Investment Portfolio	Government debt securities	1,408,995	-	-	1,408,995
<b>Total deposits and investments</b>			<b>\$ 8,409,275</b>	<b>\$ -</b>	<b>\$ 15,674</b>	<b>\$ 8,393,601</b>

*See accompanying independent auditors' report.*

**Eunice Special Hospital District**  
**Schedule of Revenues and Expenses – Budget to Actual**  
**Year Ended June 30, 2017**

	Actual	Original and Final Budget	Variance with Final Budget - Favorable (Unfavorable)
<i>Revenues</i>			
Net patient service revenue	\$ 263,877	\$ 350,000	\$ (86,123)
Other	11,734	-	11,734
Nonoperating revenues, net	1,744,117	1,616,250	127,867
<b>Total revenues</b>	<b>2,019,728</b>	<b>1,966,250</b>	<b>53,478</b>
<i>Expenses</i>			
Salaries, wages, and benefits	911,154	974,000	62,846
Professional fees	320,842	131,000	(189,842)
Other	324,682	424,800	100,118
<b>Total expenses</b>	<b>1,556,678</b>	<b>1,529,800</b>	<b>(26,878)</b>
<b>Change in net position</b>	<b>\$ 463,050</b>	<b>\$ 436,450</b>	<b>\$ 26,600</b>

*See accompanying independent auditors' report.*



**DINGUS | ZARECOR & ASSOCIATES PLLC**  
Certified Public Accountants

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*

Board of Trustees and Management of  
Eunice Special Hospital District and  
Mr. Timothy Keller, New Mexico State Auditor  
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 Eunice Special Hospital District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 6, 2017. We have also audited the schedule of revenue and expenses – budget to actual of the District for the year ended June 30, 2017, presented as supplemental information as listed in the table of contents.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, 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 opinion 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2016-001 and 2016-002.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 2016-006, 2017-001 and 2017-002.

## **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 them.

## **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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 6, 2017



**Eunice Special Hospital District  
Schedule of Findings and Responses  
Year Ended June 30, 2017**

**2017-003 (2016-001) Auditor Detected Journal Entries**

Compliance Finding  Significant Deficiency  Material Weakness

<i>Criteria</i>	Local governmental entities are required to maintain internal controls over financial accounting and reporting systems to help ensure public funds are properly safeguarded.
<i>Condition</i>	Numerous audit adjustments were proposed by the audit team in order to correct the financial statements. Management has not yet been able to implement the prior year corrective action plan.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The financial statements being used by the Board of Trustees and management for decision-making purposes were not accurate.
<i>Cause</i>	The District does not have a system of internal controls to identify all necessary end-of-year adjustments.
<i>Recommendation</i>	Adequate internal controls should be implemented to properly reconcile all statement of net position accounts and identify all adjustments necessary to make prior to the audit process.
<i>Management's Response</i>	Casey Sikes, Finance Specialist, will monitor the Detected Journal Entries and make adjustments where needed during fiscal year 2018.

**Eunice Special Hospital District  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2017**

**2017-004 (2016-002) Accounts Receivable and Allowance For Uncollectible Accounts**

Compliance Finding  Significant Deficiency  Material Weakness

<i>Criteria</i>	The calculation of the allowance for uncollectible accounts receivable (the allowance) is an integral part of financial reporting and should be calculated monthly to ensure that the financial statements are accurate.
<i>Condition</i>	The District did not record their accounts receivable in the general ledger throughout the fiscal year. Additionally, the District does not have policies and procedures in place regarding the calculation of the allowance. Management has not yet been able to implement the prior year corrective action plan; however, management has hired a new financial specialist that they plan to train to calculate and record the allowance.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The financial statements being used by the Board of Trustees and management for decision-making purposes were not accurate.
<i>Cause</i>	The District does not have a policy of updating the allowance throughout the year or a system of calculating and updating the allowance based on historical data.
<i>Recommendation</i>	The District should update the accounts receivable balance and the allowance balance monthly based on internal reports. Additionally, the District should develop policy and procedures that utilize system reports to determine the historical payment rate by payor and review the accounts receivable listing to determine if a significant change has taken place in aging or composition of the accounts receivable. These factors should be included in the calculation of the necessary allowance and included in the month end close procedures.
<i>Management's Response</i>	Casey Sikes will monitor and record the accounts receivable and allowance for uncollectible accounts and will create a formula for uncollectibles in fiscal year 2018.

**Eunice Special Hospital District  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2017**

**2017-005 (2016-006) Per Diem and Mileage Act**

Compliance Finding  Significant Deficiency  Material Weakness

<i>Criteria</i>	Per the State of New Mexico Travel and Per Diem Act, mileage may be reimbursed at a rate not to exceed the federal maximum.
<i>Condition</i>	The District was calculating mileage reimbursement at 60 cents per mile, which is 2.5 cents above the federal reimbursement amount. Management corrected the improper calculation subsequent to the 2016 audit fieldwork.
<i>Context</i>	This finding appears to be a <i>systemic</i> occurrence.
<i>Effect</i>	The District did not comply with the State of New Mexico Travel and Per Diem Act.
<i>Cause</i>	There are no policies and procedures regarding setting mileage reimbursement rates.
<i>Recommendation</i>	Policies and procedures should be developed to ensure all mileage reimbursements are made within the Office of State Auditor guidelines.
<i>Management's Response</i>	This was brought to management's attention during the fiscal year 2016 audit and was corrected going forward. Casey Sikes will continue to monitor federal changes each year.

**Eunice Special Hospital District  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2017**

**2017-001 Capital Asset Inventory**

Compliance Finding  Significant Deficiency  Material Weakness

<i>Criteria</i>	The State of New Mexico State Auditors Office (SAO) Rule 2.2.2.10 J (13) requires an annual inventory of fixed assets.
<i>Condition</i>	A capital asset inventory was not performed in fiscal year 2017.
<i>Context</i>	This finding appears to be a <i>systemic</i> issue.
<i>Effect</i>	Previously disposed of assets and assets no longer in use may still be recorded on the District's books and theft of capital assets may be undetected by the District.
<i>Cause</i>	The District does not have a system of internal controls to track capital asset inventory.
<i>Recommendation</i>	Internal controls should be implemented to require an annual fixed assets inventory. This will ensure all fixed assets are still in use and are properly capitalized.
<i>Management's Response</i>	Casey Sikes will inventory and update the asset listing near the end of fiscal year 2018 and Le' Ann Reaves will sign off to any adjustments.

**Eunice Special Hospital District  
 Schedule of Findings and Responses (Continued)  
 Year Ended June 30, 2017**

**2017-002 Actual Expenditures Exceeded Budgeted Expenditures**

Compliance Finding  Significant Deficiency  Material Weakness

<i>Criteria</i>	In order to comply with Section 2.2.2.10 R (1) (a) New Mexico administrative code (NMAC), actual expenditures cannot exceed budgeted expenditures at the fund level.
<i>Condition</i>	The District’s actual expenditures for fiscal year 2017 exceeded budgeted expenditures by \$26,878.
<i>Context</i>	This finding appears to be an <i>isolated</i> issue.
<i>Effect</i>	The District is not in compliance with Section 2.2.2.10 R (1) (a) NMAC.
<i>Cause</i>	The District did not amend its original budget to reflect additional expenses incurred.
<i>Recommendation</i>	The District should monitor expenditures throughout the fiscal year to ensure actual expenses do not exceed budgeted expenses. If necessary, an amended budget should be submitted to the New Mexico department of finance and administration (DFA) for approval.
<i>Management’s Response</i>	Mike Miller, the Consultant, will be advised to monitor and update the Budget as needed with the Department of Finance throughout fiscal year 2018.

**Eunice Special Hospital District  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2017**

<b>Prior Year Number</b>	<b>Description</b>	<b>Current Status</b>
2016-001	Auditor Detected Journal Entries	Repeated - 2016-001
2016-002	Allowance For Uncollectible Accounts	Repeated - 2016-002
2016-003	Fixed Asset Accounting	Resolved
2016-004	Missing Patient Records	Resolved
2016-005	Filing of Documents to the State Auditor's Office	Resolved
2016-006	Per Diem and Mileage Act	Repeated - 2016-006

**Eunice Special Hospital District  
Exit Conference  
Year Ended June 30, 2017**

An exit conference was held October 6, 2017, with the Board of Trustees to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Shannon Cummins  
Le'Ann Reaves  
Joe Lodge  
Shayna Zerobnick

Vice Chairman  
Clinic Manager  
Dingus, Zarecor & Associates PLLC  
Dingus, Zarecor & Associates PLLC

These financial statements were prepared by Dingus, Zarecor & Associates PLLC from records of the District.