

# **Eunice Special Hospital District**

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2019 and 2018

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

**Eunice Special Hospital District  
Board of Trustees and Principal Employee  
June 30, 2019**

*Board of Trustees*

Charles Hobbs, Jr.	Chair
Shannon Cummins	Vice Chair
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. Brian Colon, 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, 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, 2019, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

### *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 9, 2019, 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, 2018, dated October 4, 2018, which has not been included with the 2019 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 the effectiveness of the District’s 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 9, 2019

**Eunice Special Hospital District**  
**Statements of Net Position**  
**June 30, 2019 and 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 5,749,594	\$ 4,345,443
Investments	4,868,793	4,765,039
Receivables:		
Patient accounts receivable, net	12,971	9,639
Estimated third-party payor settlements	-	29,142
Taxes	195,558	270,639
Prepaid expenses	23,049	28,751
Total current assets	<b>10,849,965</b>	9,448,653
<i>Noncurrent assets</i>		
Capital assets, net	1,536,100	1,614,992
Total noncurrent assets	<b>1,536,100</b>	1,614,992
<b>Total assets</b>	<b>\$ 12,386,065</b>	\$ 11,063,645
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 26,582	\$ 31,140
Accrued compensation and related liabilities	76,882	74,868
Total current liabilities	<b>103,464</b>	106,008
<i>Net position</i>		
Net investment in capital assets	1,536,100	1,614,992
Unrestricted	10,746,501	9,342,645
Total net position	<b>12,282,601</b>	10,957,637
<b>Total liabilities and net position</b>	<b>\$ 12,386,065</b>	\$ 11,063,645

*See accompanying notes to basic financial statements.*



**Eunice Special Hospital District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<i>Operating revenues</i>		
Net patient service revenue	\$ 389,710	\$ 336,726
Other	28,151	7,992
<b>Total operating revenues</b>	<b>417,861</b>	<b>344,718</b>
<i>Operating expenses</i>		
Salaries and wages	737,388	672,697
Employee benefits	183,002	173,496
Professional fees	302,573	285,672
Supplies	67,429	66,453
Utilities	42,842	44,391
Repairs and maintenance	26,911	25,684
Depreciation	93,938	98,291
Insurance	48,339	52,354
Other	55,616	59,198
<b>Total operating expenses</b>	<b>1,558,038</b>	<b>1,478,236</b>
<b>Operating loss</b>	<b>(1,140,177)</b>	<b>(1,133,518)</b>
<i>Nonoperating revenues (expenses)</i>		
Tax revenue	2,361,387	1,989,548
Investment income	103,754	34,362
Loss on disposal of capital assets	-	(2,879)
<b>Total nonoperating revenues, net</b>	<b>2,465,141</b>	<b>2,021,031</b>
Change in net position	1,324,964	887,513
Net position, beginning of year	10,957,637	10,070,124
<b>Net position, end of year</b>	<b>\$ 12,282,601</b>	<b>\$ 10,957,637</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 415,520	\$ 311,233
Cash received from other revenue	28,151	7,992
Cash paid to and on behalf of employees	(918,376)	(831,186)
Cash paid to suppliers and contractors	(542,566)	(557,093)
Net cash used in operating activities	(1,017,271)	(1,069,054)
<i>Cash flows from noncapital financing activities</i>		
Cash received from tax revenues	2,436,468	1,790,022
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(15,046)	(38,449)
<i>Cash flows from investing activities</i>		
Purchase of investments	(103,754)	(34,362)
Interest received	103,754	34,362
Net cash used in investing activities	-	-
Net increase in cash and cash equivalents	1,404,151	682,519
Cash and cash equivalents, beginning of year	4,345,443	3,662,924
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,749,594</b>	<b>\$ 4,345,443</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b><i>Reconciliation of operating loss to net cash used in operating activities</i></b>		
Operating loss	\$ (1,140,177)	\$ (1,133,518)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation	<b>93,938</b>	98,291
Provision for bad debts	<b>10,570</b>	27,519
(Increase) decrease in assets:		
Receivables:		
Patient accounts	<b>(13,902)</b>	(23,870)
Estimated third-party payor settlements	<b>29,142</b>	(29,142)
Prepaid expenses	<b>5,702</b>	(1,625)
Increase (decrease) in liabilities:		
Accounts payable	<b>(4,558)</b>	(21,716)
Accrued compensation and related liabilities	<b>2,014</b>	15,007
<b>Net cash used in operating activities</b>	<b>\$ (1,017,271)</b>	<b>\$ (1,069,054)</b>

*See accompanying notes to basic financial statements.*

**Eunice Special Hospital District  
Notes to Basic Financial Statements  
Years Ended June 30, 2019 and 2018**

**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, 2019 or 2018. *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, 2019 and 2018**

**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 9, 2019, the date on which the financial statements were available to be issued.

*Upcoming accounting standard pronouncements* – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending June 30, 2021, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**Eunice Special Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

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

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

*Upcoming accounting standard pronouncements (continued)* – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District’s year ending June 30, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**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, 2019 and 2018, totaled \$6,173,369 and \$4,775,861, respectively. At June 30, 2019 and 2018, the collateralized balance exceeded the minimum FDIC coverage and collateral requirement by a total of \$3,196,578 and \$2,140,099, 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.

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

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

**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, 2019 and 2018:

- Investments in government bond mutual funds of \$1,357,293 and \$1,389,145, respectively, are valued using quoted market prices (Level 1 inputs)
- Money market funds of \$176,975 and \$108,026, respectively (Level 1 inputs)
- Certificates of deposit funds of \$419,119 and \$414,925, respectively (Level 2 inputs)

The District’s investments are as follows:

	2019						Investment Ratings
	Fair Value	Investment Maturities (in Years)					
		Less Than One	One to Five	Six to Ten	More than Ten		
<i>Held by State of New Mexico</i>							
New MexiGrow Local Government Investment Pool	\$ 2,915,406	\$ 2,915,406	\$ -	\$ -	\$ -		AAAm
<i>Lea County State Bank</i>							
Certificates of Deposit	206,366	206,366	-	-	-		Not applicable
<i>Pioneer Bank</i>							
Certificates of Deposit	212,753	212,753	-	-	-		Not applicable
<i>Fidelity Investments</i>							
Money Market	176,975	176,975	-	-	-		Not applicable
Investment in governmental debt mutual funds	1,357,293	1,357,293	-	-	-		AAA
<b>Total investments</b>	<b>\$ 4,868,793</b>	<b>\$ 4,868,793</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		

	2018						Investment Ratings
	Fair Value	Investment Maturities (in Years)					
		Less Than One	One to Five	Six to Ten	More than Ten		
<i>Held by State of New Mexico</i>							
New MexiGrow Local Government Investment Pool	\$ 2,852,943	\$ 2,852,943	\$ -	\$ -	\$ -		AAAm
<i>Lea County State Bank</i>							
Certificates of Deposit	205,182	205,182	-	-	-		Not applicable
<i>Pioneer Bank</i>							
Certificates of Deposit	209,743	209,743	-	-	-		Not applicable
<i>Fidelity Investments</i>							
Money Market	108,026	108,026	-	-	-		Not applicable
Investment in governmental debt mutual funds	1,389,145	1,389,145	-	-	-		AAA
<b>Total investments</b>	<b>\$ 4,765,039</b>	<b>\$ 4,765,039</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**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>2019</b>	<b>2018</b>
Receivable from patients and their insurance carriers	\$ 44,386	\$ 43,330
Receivable from Medicare	280	34
Receivable from Medicaid	1,224	257
Total patient accounts receivable	<b>45,890</b>	43,621
Less allowance for uncollectible accounts	<b>32,919</b>	33,982
<b>Net patient accounts receivable</b>	<b>\$ 12,971</b>	<b>\$ 9,639</b>



**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**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:

	2019				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	1,953,159	15,046	-	-	1,968,205
Equipment	494,137	-	-	-	494,137
Total capital assets being depreciated	2,447,296	15,046	-	-	2,462,342
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(573,796)	(54,068)	-	-	(627,864)
Equipment	(377,508)	(39,870)	-	-	(417,378)
Total accumulated depreciation	(951,304)	(93,938)	-	-	(1,045,242)
Total capital assets being depreciated, net	1,495,992	(78,892)	-	-	1,417,100
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 1,614,992</b>	<b>\$ (78,892)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,536,100</b>

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

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

	<b>2018</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	1,943,730	9,429	-	-	1,953,159
Equipment	598,070	29,020	(132,953)	-	494,137
Total capital assets being depreciated	2,541,800	38,449	(132,953)	-	2,447,296
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(520,274)	(53,522)	-	-	(573,796)
Equipment	(462,813)	(44,769)	130,074	-	(377,508)
Total accumulated depreciation	(983,087)	(98,291)	130,074	-	(951,304)
Total capital assets being depreciated, net	1,558,713	(59,842)	(2,879)	-	1,495,992
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 1,677,713</b>	<b>\$ (59,842)</b>	<b>\$ (2,879)</b>	<b>\$ -</b>	<b>\$ 1,614,992</b>

**5. Compensated Absences:**

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amount Due Within One Year</b>
Compensated absences	\$ 37,074	\$ 42,339	\$ (40,471)	\$ 38,942	\$ 38,942

  

	<b>2018</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amount Due Within One Year</b>
Compensated absences	\$ 32,473	\$ 17,826	\$ (13,225)	\$ 37,074	\$ 37,074

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**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's provisions for bad debts and writeoffs did not significantly change from 2018. The District has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. 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>2019</b>	<b>2018</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 48,215	\$ 29,183
Medicaid/Centennial Care	111,820	101,450
Other third-party payors	206,637	141,122
Patients	33,608	92,490
	<b>400,280</b>	<b>364,245</b>
Less:		
Provision for bad debts	10,570	27,519
<b>Net patient service revenue</b>	<b>\$ 389,710</b>	<b>\$ 336,726</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 and discounts from established charges.

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 had no change in 2019 and increased by approximately \$29,000 in 2018, due to differences between original estimates and final settlements or revised estimates.

**Eunice Special Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2019 and 2018**

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

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.

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, 2019 and 2018. The District did not receive any gifts or grants to subsidize charity care services during 2019 or 2018.

**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 2019 through 2022. The District recorded tax levy proceeds of \$339,906 and \$309,221 in 2019 and 2018, respectively.

Mill levy property taxes are levied based on the assessed value of the property of Lea County 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 percent 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 \$1,571,577 and \$1,129,307 in 2019 and 2018, 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 \$448,914 and \$551,891 in 2019 and 2018, respectively.

**8. Tax Abatements:**

Lea County enters into property tax abatement agreements with local businesses under the County Industrial Revenue Bond Act, Chapter 4, Article 59 NMSA 1978 as amended and Article VIII, Section 3 of the State Constitution and NMSA 1978, Section 7-36-3. The County Industrial Revenue Bond Act authorizes counties to acquire, own, lease or sell projects for the purpose of promoting industry and trade by inducing manufacturing, industrial, and commercial enterprises to locate or expand in the state.

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**8. Tax Abatements (continued):**

For the fiscal years ended June 30, 2019 and 2018, Lea County abated property taxes under the County Industrial Revenue Bond Act, including the following tax abatement agreement that affected the District's tax revenue:

Urenco was granted an 80 percent Ad Valorem Property Tax Exemption to construct and operate a uranium enrichment plant. The amount of the exemption will be an 80 percent reduction of the tax due that would have been applicable for each tax year. The abatement of property taxes attributed to the District for fiscal year 2019 was \$988,320, with a \$247,080 Payment in Lieu of Taxes due to the District. The abatement of property taxes attributed to the District for fiscal year 2018 was \$1,049,943, with a \$262,486 Payment in Lieu of Taxes due to the District.

**9. 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 percent of their gross salary. Employee contributions are 100 percent vested immediately and employer contributions become 100 percent vested after six months. Total employer and employee contributions to the Plan totaled approximately \$29,000 and \$26,000 each for the years ended June 30, 2019 and 2018, respectively.

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

**10. 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.

**Eunice Special Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2019 and 2018**

**10. Risk Management and Contingencies (continued):**

*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 unknown or unasserted at this time.

**11. 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>2019</b>	<b>2018</b>
Medicare	<b>1 %</b>	- %
Medicaid	<b>4</b>	1
Patients	<b>77</b>	93
Commercial and other	<b>18</b>	6
	<b>100 %</b>	100 %

*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 the District’s operations.

**SUPPLEMENTAL INFORMATION**

**Eunice Special Hospital District  
Schedule of Pledged Collateral  
June 30, 2019**

	<b>The James Polk Stone Community Bank</b>	<b>Lea County State Bank</b>	<b>Pioneer Bank</b>
Deposits at June 30, 2019	\$ 5,754,250	\$ 206,366	\$ 212,753
Less: FDIC insurance	(250,000)	(250,000)	(250,000)
Uninsured public funds	5,504,250	(43,634)	(37,247)
Pledged collateral held by the pledging bank's trust department or agent, but not in the District's name	5,948,703	-	-
Total uninsured and uncollateralized public funds	\$ -	\$ -	\$ -
50% pledged collateral requirement per statute	\$ 2,752,125	\$ -	\$ -
Total pledged collateral	5,948,703	-	-
<b>Pledged collateral over the requirement</b>	<b>\$ 3,196,578</b>	<b>\$ -</b>	<b>\$ -</b>
<b>The James Polk Stone Community Bank</b>			
FHLB - 3130A9QN4, matures October 27, 2028	\$ 992,027	\$ -	\$ -
FHLB - 3130ACFT6, matures September 29, 2032	500,186	-	-
FHLMC - 3134GAFG4, matures August 22, 2031	983,242	-	-
FHLMC - 3134GAFP4, matures August 28, 2031	989,016	-	-
FHLMC - 3134GASPO, matures October 28, 2031	983,479	-	-
FNMA - 3136G3AJ4, matures February 24, 2031	1,000,155	-	-
FNMA - 3136G3GJ8, matures March 28, 2031	500,598	-	-
<b>Total pledged securities</b>	<b>\$ 5,948,703</b>	<b>\$ -</b>	<b>\$ -</b>

*See accompanying independent auditors' report.*



**Eunice Special Hospital District  
Schedule of Individual Deposit and Investment Accounts  
June 30, 2019**

<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	\$ 5,754,250	\$ -	\$ 4,656	\$ 5,749,594
<b>Investments</b>						
State of New Mexico	Investment Portfolio	Local Government Investment Pool	2,915,406	-	-	2,915,406
Lea County State Bank	Investment - CD	Certificates of Deposit	206,366	-	-	206,366
Pioneer Bank	Investment - CD	Certificates of Deposit	212,753	-	-	212,753
Fidelity Investments	Investment Portfolio	Money Market	176,975	-	-	176,975
Fidelity Investments	Investment Portfolio	Government debt securities	1,357,293	-	-	1,357,293
<b>Total deposits and investments</b>			<b>\$ 10,623,043</b>	<b>\$ -</b>	<b>\$ 4,656</b>	<b>\$ 10,618,387</b>

*See accompanying independent auditors' report.*

**Eunice Special Hospital District  
Schedule of Revenues and Expenses – Budget to Actual  
Year Ended June 30, 2019**

	<b>Actual</b>	<b>Original and Final Budget</b>	<b>Variance with Final Budget - Favorable (Unfavorable)</b>
<i>Revenues</i>			
Net patient service revenue	\$ 389,710	\$ 285,100	\$ 104,610
Other	28,151	-	28,151
Nonoperating revenues, net	2,465,141	1,597,600	867,541
<b>Total revenues</b>	<b>2,883,002</b>	<b>1,882,700</b>	<b>1,000,302</b>
<i>Expenses</i>			
Salaries, wages, and benefits	920,390	923,700	3,310
Professional fees	302,573	250,000	(52,573)
Other	241,137	380,850	139,713
<b>Total expenses</b>	<b>1,464,100</b>	<b>1,554,550</b>	<b>90,450</b>
<b>Change in net position</b>	<b>\$ 1,418,902</b>	<b>\$ 328,150</b>	<b>\$ 1,090,752</b>

*See accompanying independent auditors' report.*

**Depreciation expense** – The District submits its annual budget to the New Mexico Department of Finance and Administration Local Government Division for approval before each fiscal year. The budgeted expenditures are calculated on the cash basis and do not include depreciation expense. Depreciation expense was excluded from the actual expenditures in the Schedule of Revenues and Expenses - Budget to Actual above. Depreciation expense for the year ended June 30, 2019 was \$93,938.



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. Brian Colon, 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, 2019, 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 9, 2019. We have also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2019, 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

## **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 item 2019-003.

## **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was 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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 9, 2019

**Eunice Special Hospital District  
Summary of Auditors' Results  
Year Ended June 30, 2019**

**Financial Statements**

<u>Type of Auditors' report issued:</u>	<u>Unmodified</u>	
Internal control over financial reporting: Material weakness reported?	<u>    </u> Yes	<u>  X  </u> No
Significant deficiencies reported not considered to be material weaknesses?	<u>  X  </u> Yes	<u>    </u> No
Noncompliance material to financial statements noted?	<u>    </u> Yes	<u>  X  </u> No
Other noncompliance noted?	<u>  X  </u> Yes	<u>    </u> No

**Eunice Special Hospital District  
Schedule of Findings and Responses  
Year Ended June 30, 2019**

**2019-001 (2016-001, 2017-003, 2018-001) Auditor Detected Journal Entries**

Material Noncompliance     Other Noncompliance  
 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. Timely and accurate information should be available to management and those charged with governance for decision making purposes. There should be no material audit adjustments made to correct the financial statements.
<i>Condition</i>	Numerous audit adjustments were proposed by the audit team in order to correct accounts receivable and contractual allowance (\$10,506), patient revenues and contractual adjustments (\$29,142), accrued compensation (\$1,868), accounts payable (\$2,876), taxes receivable (\$5,489), prepaid expenses (\$5,087), and patient refunds (\$20,488). Management has not yet implemented 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 prior to the audit process.
<i>Management's Response</i>	We agree with the finding. The District has engaged the services of Randie Hatley, CPA, to assist the Finance Director in making adjustments to the trial balance prior to starting of the fiscal year 2020 audit process.

**Eunice Special Hospital District  
 Schedule of Findings and Responses (Continued)  
 Year Ended June 30, 2019**

**2019-002 (2016-002, 2017-004, 2018-002) Accounts Receivable and Allowance For Uncollectible Accounts**

Material Noncompliance     Other Noncompliance  
 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 implemented 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 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 periodically based on internal reports. Additionally, the District should develop policies 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>	We agree that controls over Accounts Receivable reporting need improvement. The District has engaged the services of Randie Hatley, CPA, to assist the Finance Director in recording and adjusting accounts receivable monthly in fiscal year 2020.

**Eunice Special Hospital District  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2019**

**2019-003 403(b) Plan Eligibility**

Material Noncompliance     Other Noncompliance  
 Significant Deficiency     Material Weakness

<i>Criteria</i>	IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans) states that these plans are available to employees of public schools and certain tax-exempt organizations.
<i>Condition</i>	The District is not a tax-exempt organization under IRS Section 501(c)(3). The District is a governmental entity and has not obtained dual-status as a tax-exempt organization under IRS Section 501(c)(3).
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The District's retirement plan is not in compliance with IRS regulations.
<i>Cause</i>	The District's retirement plan administrators did not recognize that governmental entities are not tax-exempt organizations under IRS Section 501(c)(3) without specifically applying for this status.
<i>Recommendation</i>	The District either needs to obtain IRS Section 501(c)(3) status or change retirement plans.
<i>Management's Response</i>	The Clinic Manager will work with our plan administrator, PlanMember Services Corporation, during fiscal year 2020, to enroll in a plan allowed for government entities.



**Eunice Special Hospital District  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2019**

<b>Prior Year Number</b>	<b>Description</b>	<b>Current Status</b>
2018-001	Auditor Detected Journal Entries	Repeated - 2019-001
2018-002	Accounts Receivable and Allowance For Uncollectible Accounts	Repeated - 2019-002
2018-003	Recording Revenues and Expenses on a Cash Basis	Resolved
2018-004	Disposition of Property	Resolved

**Eunice Special Hospital District  
Exit Conference  
Year Ended June 30, 2019**

An exit conference was held August 9, 2019, with the following individuals to discuss the basic financial statements and results of the audit. The individuals attending this meeting were:

Shannon Cummins	Vice Chair
Le' Ann Reaves	Clinic Manager
Casey Sikes	Financial Specialist
Joe Lodge (by phone)	Dingus, Zarecor & Associates PLLC
Jeremy Valdez	Dingus, Zarecor & Associates PLLC

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