

**JAL HOSPITAL DISTRICT**

Financial Statements  
With Independent Auditor's Report Thereon  
June 30, 2008

**JAL HOSPITAL DISTRICT  
DISTRICT OFFICIALS  
June 30, 2008**

**Name**

**District Board of Trustees**

**Title**

Stephen Aldridge

Chairman

W. E. Armstrong

Vice Chairman

Minnie Hedgpeth

Secretary/Treasurer

Saul Monroy

Member

Joyce Pittam

Member

**Administrative Official**

Carolynn Swain

Office Manager

**JAL HOSPITAL DISTRICT**  
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June 30, 2008

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Jal Hospital District  
Management of Jal Hospital District  
Jal, New Mexico  
and  
Mr. Hector H. Balderas, State Auditor:

We have audited the accompanying financial statements of the business-type activities of the Jal Hospital District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the Districts basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statements presented as supplemental information as of and for the year ended June 30, 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

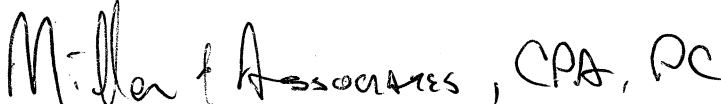
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Jal Hospital District as of June 30, 2008, and the changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison presented as supplemental information for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2008 on our consideration of Jal Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America and presented on pages 3-7. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements and the budgetary comparison presented as supplemental information. The accompanying financial information listed as additional supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

  
Miller & Associates, CPA, P.C.  
October 15, 2008

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008**

Our discussion and analysis of the Jal Hospital Special District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. This information is presented in conjunction with audited financial statements that follow this section.

**Financial Highlights**

- The District's total assets increased by \$112,004 while total liabilities increased by \$14,119 resulting in total net assets increasing \$97,885.
- The District's operating expenses in fiscal year 2007-2008 were increased by \$405,757.
- As of the close of the current fiscal year, the District reported an ending fund balance of \$2,724,838.
- User fee revenue from patient activity increased by \$211,800 due to the increase in patient encounters during the period and the opening of the dental clinic.
- Investment income increased by \$1,615 reflective of the decision to move monies into the New Mexico State Treasurer's investment pool which earns at a slightly higher rate than that of banks and the reinvestment of CD's to longer periods of time producing a higher yield.

**Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

**Financial Statements:**

The financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting.

*The statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

*The statement of changes in fund net assets* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event, giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*government activities*) from other functions that are

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

intended to recover all or a significant portion of their costs through user fees and charges business-type activity). The governmental activities include a local mill levy and a contract with the State of New Mexico Department of Health/Primary Care Bureau and the Department of Health Breast and Cervical Cancer Program. The business-type activity includes providing medical and dental services to the community of Jal, New Mexico and surrounding area.

**Fund financial statements**

The District's basic services are reported in one unrestricted fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using the accrual basis of accounting. The statements provide a detailed short-term view of the District's general operations and the basic services it provides.

**Notes to basic financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11-21 of this report.

**Financial Analysis**

Net assets may serve over time as a useful indicator of an entity's financial position. By far the largest portion of the District's net assets is cash. The balance of unrestricted funds may be used to meet the District's ongoing obligations to citizens, patients, and creditors.

**Governmental activities**

- Property tax revenue increased by \$91,728 primarily due to the increased productivity in the oil and gas industry.
- Investment income increased by \$1,615 primarily from the investment being moved to the New Mexico State Treasurer's investment pool and reinvesting CD's for a longer period of time for a higher yield.
- Contractual grants increased by \$8,000 in the 2008 fiscal year.

**Business-type activities**

- Business type revenue increased \$219,800 due to the increased number of patient encounters and the opening of the dental clinic during the 2007-2008 fiscal period.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008**

**Net Assets**

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

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

	<b>FY 2008</b>	<b>FY 2007</b>	<b>Total Change</b>
Current and Other Assets	\$1,666,950	\$1,490,723	\$176,227
Capital Assets	1,141,166	1,205,389	(64,223)
<b>Total Assets</b>	<b>2,808,116</b>	<b>2,696,112</b>	<b>112,004</b>
<b>Total Liabilities</b>	<b>83,278</b>	<b>69,159</b>	<b>14,119</b>
<b>Total Net Assets</b>	<b>\$2,724,838</b>	<b>\$2,626,953</b>	<b>\$97,885</b>

As can be seen from the table above, net assets increased \$97,885 to \$2,724,838 in fiscal year 2008 from \$2,626,953 in fiscal year 2007.

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

	<b>FY 2008</b>	<b>FY 2007</b>	<b>Dollar Change</b>
Operating Revenues	\$533,770	\$313,970	\$219,800
Non-Operating Revenues	727,367	626,676	100,691
<b>Total Revenues</b>	<b>1,261,137</b>	<b>940,646</b>	<b>320,491</b>
Depreciation Expense	97,120	91,766	5,354
Other Operating Expenses	1,066,132	665,729	400,403
<b>Total Expenses</b>	<b>1,163,252</b>	<b>757,495</b>	<b>405,757</b>
<b>Net Income</b>	<b>97,885</b>	<b>183,151</b>	<b>(85,266)</b>
<b>Beginning Net Assets</b>	<b>2,626,953</b>	<b>2,443,802</b>	<b>183,151</b>
<b>Ending Net Assets</b>	<b>\$2,724,838</b>	<b>\$2,626,953</b>	<b>\$ 97,885</b>

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



**STATE OF NEW MEXICO**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

The District's operating revenues increased by \$219,800 due to the dental clinic opening and receiving revenues in September 2007, the increase in the amount received from property tax, the increase in the number of patients seen and amounts received from contracts with the State of New Mexico which included the Rural Health Bureau and the Breast and Cervical Cancer Program.

**BUDGETARY HIGHLIGHTS**

The District adopts an annual Operating Budget following public workshops and a public hearing. The Operating Budget includes proposed expenses and the means of financing them. The District's operating budget remained in effect the entire fiscal year and was not revised. The difference in budget and actual in property tax revenues is the result of oil & gas production being greater than expected and personnel services is less than budgeted due to employees working fewer hours than budgeted and less employer contributions to the retirement plan than was budgeted.

A fiscal year 2008 budget comparison and analysis is presented in Table A-3

**Table A-3**  
**Budget vs. Actual**  
**Year Ended June 30, 2008**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Property Taxes	\$ 380,000	\$ 605,055	\$ (225,055)
Charges For Services	473,000	253,840	219,160
RPHCA Fund	120,000	99,686	20,314
Investment Earnings	30,000	48,655	(18,655)
Rental Income	3,600	7,200	(3,600)
Miscellaneous	5,400	15,847	(10,447)
<b>Total Revenues</b>	<b>1,012,000</b>	<b>1,030,283</b>	<b>(18,283)</b>
<b>Expenses</b>			
Personnel Services	756,305	630,585	125,720
Contractual Services	60,500	56,219	4,281
Utilities	46,500	24,330	22,170
Repairs and Maintenance	46,000	73,304	(27,304)
Other Supplies and Expenses *	118,000	140,929	(22,929)
Insurance Claims and Expenses	75,000	74,994	6
Licenses and dues	5,500	-	5,500
Miscellaneous	35,000	17,151	17,849
Capital Outlay	330,000	51,247	278,753
<b>Total Expenses</b>	<b>1,472,805</b>	<b>1,068,759</b>	<b>404,046</b>
<b>Operating (Loss) Income</b>	<b>\$ (460,805)</b>	<b>\$ (38,476)</b>	<b>\$ (422,329)</b>

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008**

\* Note: Included in the budget line "Other Supplies and Expenses" is an amount budgeted for capital outlay construction in progress. For budget purposes it is included as a line item, but is not an expense. The capital outlay amount will be reflected in Table A-4 Capital Assets.

**CAPITAL ASSETS:**

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**Table A-4  
Capital Assets**

			<b>Dollar</b>
	<b>FY 2008</b>	<b>FY 2007</b>	<b>Change</b>
Property, plant and equipment	\$1,435,225	\$1,589,590	\$(154,365)
Less: Accumulated Depreciation	(294,059)	(384,201)	90,142
<b>Total Capital Assets</b>	<b>\$1,141,166</b>	<b>\$1,205,389</b>	<b>\$(64,223)</b>

The District's Five Year Capital Plan includes periodic replacement of computer systems and renovation of property located at 805 West Kansas, Jal, New Mexico to accommodate additional space for dental care. After having the dental facility at 423 South Third Street, Jal, New Mexico open for only one year, it is apparent that a larger dental facility is needed to produce greater dental production.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Board of Trustees of the District considered many factors when setting the fiscal year 2008 budget. One of those factors is the local economy and the impact our fees have on the community. By maintaining reasonable fees the District believes it can continue to provide medical care to all the community of Jal.

**DISTRICT CONTACT INFORMATION**

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This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contactCarolynn Swain, Business Manager, Jal Hospital District, P.O. Drawer Z, Jal, New Mexico 88252 or by phone at 575-395-3400.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2008**

**ASSETS**

<b>Current assets:</b>	
Cash and cash equivalents (Note 2)	\$ 434,133
Investments in the State General Fund investment pool (Note 3)	967,283
Accounts receivable, net (Note 4)	230,853
Inventory	7,920
Prepaid expenses	<u>26,761</u>
 Total current assets	 1,666,950
 <b>Non-current assets:</b>	
Capital assets (Note 5)	<u>1,141,166</u>
 Total assets	 \$ <u><u>2,808,116</u></u>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities:</b>	
Accounts payable	\$ 5,869
Payroll liabilities	51,728
Other current liabilities	<u>7,898</u>
 Total current liabilities	 65,495
 <b>Non-current liabilities:</b>	
Accrued vacation (Note 9)	<u>17,783</u>
 Total liabilities	 <u>83,278</u>
 <b>Net Assets:</b>	
Invested in capital assets	1,141,166
Unrestricted	<u>1,583,672</u>
 Total net assets	 <u>2,724,838</u>
 Total liabilities and net assets	 \$ <u><u>2,808,116</u></u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For the Year Ended June 30, 2008**

Unrestricted net assets:	
Operating revenues:	
Charges for services	\$ 413,770
State Department of Health Grant, RPHCA (Note 7)	<u>120,000</u>
 Total operating revenues	 <u>533,770</u>
Operating expenses:	
Personnel services	700,077
Contractual services	62,088
Utilities	24,330
Repairs and maintenance	73,304
Other supplies and expenses	138,725
Insurance claims and expenses	50,302
Depreciation	97,120
Miscellaneous expenses	<u>17,306</u>
 Total operating expenses	 <u>1,163,252</u>
 Operating income (loss)	 <u>(629,482)</u>
Non-Operating Revenues:	
Property taxes	655,665
Interest income	48,655
Miscellaneous income	15,847
Rental revenue	<u>7,200</u>
 Total non-operating revenues	 <u>727,367</u>
 Increase in net assets	 97,885
 Total net assets - beginning of year	 <u>2,626,953</u>
 Total net assets - end of year	 <u>\$ 2,724,838</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2008**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 344,400
Cash received from grants	120,000
Cash paid to suppliers	(394,232)
Cash paid to employees	<u>(655,256)</u>
Net cash provided (used) by operating activities	<u>(585,088)</u>
 <b>Cash flows from non-capital financing activities:</b>	
Property tax receipts	<u>655,664</u>
Net cash (used) by non-capital financing activities	<u>655,664</u>
 <b>Cash flows from capital and related financing activities:</b>	
Other cash received	18,398
Payments for capital assets	<u>(51,127)</u>
Net cash (used) by capital and related financing activities	<u>(32,729)</u>
 <b>Cash flows from investing activities:</b>	
Interest revenue received	(185,330)
Miscellaneous revenue received	15,847
Rental revenue received	<u>7,200</u>
Net cash (used) by investing activities	<u>(162,283)</u>
Net increase (decrease) in cash	(124,436)
Cash - beginning of year	<u>558,569</u>
Cash - end of year	<u>\$ 434,133</u>
 <b>Reconciliation of net operating income (loss) to net cash (used) by operating activities:</b>	
Operating income (loss)	\$ (629,482)
Adjustments to reconcile net operating income (loss) to net cash (used) by operating activities:	
Depreciation expense	97,120
Changes in assets and liabilities:	
Receivables, net	(69,370)
Inventory	3,544
Prepaid expense	(2,678)
Payroll liabilities	29,544
Accounts payable	(30,701)
Accrued liabilities	<u>16,935</u>
Net cash (used) by operating activities	<u>\$ (585,088)</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 1. Summary of Significant Accounting Policies**

This summary of significant accounting policies of Jal Hospital District (the "District") is presented to assist in understanding the District's financial statements. These financial statements and notes are representations of the District's management and Board of Trustees who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

*A. Nature of Business*

Jal Hospital District is an entity of the State of New Mexico located in Lea County, New Mexico. The District provides medical attention to the residents of Lea County and others who may require it, through the use of a modern clinic located in the City of Jal.

Lea County, New Mexico assumed operation of Jal Hospital in January, 1983, after the previous operator, Medical Environments, Inc. (MEI), was declared bankrupt. The Hospital was then operated by the Lea County Commissioners and Brim & Associates, Inc. under a management contract until June 30, 1983, during which time an election was held to create the Hospital District for the tax years July 1, 1983, through June 30, 1987.

On July 1, 1983, a Board of Trustees was appointed to continue the District's operation. The Board in turn approved the management contract with Brim & Associates, Inc. to provide administrative and operational management of the District. The District's three year contract with Brim & Associates, Inc. provided for a management fee in the amount of \$90,000 plus annual adjustment for changes in the Consumer Price Index (medial component). The transfer of operations from Lea County to the Hospital District Board of Trustees was completed during the 1983-1984 fiscal year.

On July 1, 1983, Lea County contributed to the District various assets with a book value to the District of \$330,292 in exchange for \$1.00 from the Jal Hospital District.

On July 15, 1986, the District terminated its management contract with Brim & Associates, Inc. and discontinued all services including inpatient services as an acute care hospital.

On October 31, 1986, the Hospital District discontinued all services including outpatient clinic services. The Hospital District continued to collect accounts receivable, disposed of inventories and settled debts until April, 1988. At that time, an agreement was reached with Lea Regional Hospital of Hobbs, New Mexico, to provide, under contract, services of a physician and nurse for the sum of \$175,000 per year.

The Hospital District then opened the Jal Clinic located at 101 East Panther for outpatient services. All administrative staff was provided by the District. The Board of Trustees remained the governing body.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 1. Summary of Significant Accounting Policies (continued)**

In 1987, the mill levy was renewed for the tax years July 1, 1987 through June 30, 1992.

On June 30, 1990, the contract with Lea Regional Hospital was mutually discontinued and at the time, a physician and nurse were hired as employees of the District. During the 1989-1990 fiscal year, the Hospital Building, located at West Kansas Avenue, was sold to the City of Jal for the sum of \$1.00.

Currently, the Hospital District operates a Rural Health Care Clinic in a manpower shortage area. On April 4, 2000, a mill levy election was held and the mill levy was (again) approved for the tax years July 1, 2000 through June 30, 2005 by a vote of 113 for, 19 opposed.

**B. Reporting Entity**

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. GASB 39 provides additional guidance to determine whether certain organizations for which the District is not financially accountable should be reported as discretely presented component units based on the nature and significance of their relationship with the District.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units, and is not a component unit of any other entity.

**C. Measurement Focus and Basis of Accounting**

The accounts of the District are organized on the basis of fund type, of which there is only one fund which is considered an enterprise fund.

**Enterprise Funds: (Unrestricted Funds)**

Unrestricted funds are used to account for operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that the costs,

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 1. Summary of Significant Accounting Policies (continued)**

including depreciation, of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The unrestricted funds (enterprise funds) are accounted for using the full accrual basis of accounting. Their revenues are recognized when the related service is completed and billed. Property taxes are recognized as revenues in the year for which they are levied. Expenses are recorded when an item is utilized or a liability is incurred.

*D. Operating and Non-operating Revenues*

Operating revenue includes activities that have the characteristics of exchange transactions, such as a) patient services and b) contracts and grants. Revenue from grants and similar items is recognized as soon as all eligibility requirements imposed by the provider have been met.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as investment income and exchange transactions, such as rental revenue. These revenue streams are recognized under GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

*E. Budgets and Budgetary Accounting*

Annual budgets of the District are prepared prior to June 1 and must be approved by the resolution of the board, and submitted for approval by the State of New Mexico. Once the budget has been formally approved, any amendments must also be approved by the Board and the State. Line items within the budget may be over-expended; however, it is not legally permissible to over-expend the budget in total.

Budget amounts are as originally adopted, or as amended by the Board and approved by the State. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The schedule of budgeted revenues and expenditures presents comparisons of legally adopted budgets with actual data on a budgetary basis.

*F. Assets, Liabilities and Equity*

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the District



**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 1. Summary of Significant Accounting Policies (continued)**

considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Immediate cash needs are met with resources deposited at the District's bank. The District has invested a portion of their cash with the New Mexico State Treasurer's Office short-term investment pool. Amounts invested with the State Treasurer are readily available to the District when needed and are recorded at cost which approximates fair value.

**Inventory:** Inventories are valued at the lower of cost or market on a first-in, first-out method. Inventory consists of medical supplies held for use in operations or sale to patients.

**Accounts Receivable:** Trade accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

**Capital Assets:** Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at their estimated value on the date donated. Information technology equipment, including software, is depreciated in accordance with NMAC 2.20.1.9 C (5). Depreciation has been provided using the straight-line method over the following estimated useful lives:

Building	25-40 years
Improvements	10-35years
Equipment and Software	5-20 years

It is also the District's policy to capitalize interest incurred during construction as part of the historical cost of capital.

**Net Patient Service Revenue:** The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. The following is a summary of the payment arrangements with major third-party payers:

*Medicare* – Outpatient care services rendered to Medicare program beneficiaries are paid at determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

*Medicaid* – Outpatient care services rendered to Medicaid program beneficiaries are paid at determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 1. Summary of Significant Accounting Policies (continued)**

**Property Taxes:** The Jal Hospital District receives property taxes from the Treasurer of the County of Lea. The County serves as the intermediary collecting agency and remits the District's share of property tax collections to the District. The District does not maintain detailed records of property taxes receivable by the individual taxpayer.

By April 1 of each year, the County Assessor shall mail a notice to each property owner informing them of the net taxable value of the property, which has been valued for taxation purposes by the Assessor. By May 1 of each year, the property valuation protest period expires. Upon receipt of the property tax schedule, the County Treasurer shall prepare and mail property tax bills to either the owner of the property or any person other than the owner to who the tax bill is sent. Tax bills shall be mailed no later than November 1 of each tax year.

Property taxes of less than ten dollars are payable to the County Treasurer in full, due on November 10, delinquent December 11 in the year in which the tax bill was prepared and mailed. Property taxes of ten dollars or more are payable to the County Treasurer in two equal installments, the first half is due November 10, and is delinquent December 11. The second installment is due April 10, and is delinquent May 11 of the following year.

**Compensated Absences:** Vacation and sick days earned during the current contract year must be taken by December 31 of the following year. A total of 5-15 days vacation per year (depending on length of employment) and 12 days sick leave per year may be accumulated by each fulltime, permanent employee. Unused vacation days are carried over to the next year, with a maximum accumulation of 3 weeks. Upon termination, employee will be paid accumulated vacation days. However, no accrual will be made for sick days because accrued sick days are lost if not used in the current year or upon termination.

*G. Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

*H. Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates utilized in the preparation of these financial statements include allowances for uncollectible accounts, the estimated lives of capital assets, and estimated Medicare accounts receivable not billed at year end.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 1. Summary of Significant Accounting Policies (continued)**

*I. Use of FASB Pronouncements*

The Jal Hospital District has elected to utilize alternative #2 under GASB No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under alternative #2, the government entities using proprietary fund accounting must follow 1) all GASB pronouncements and 2) all FASB Statements and Interpretations issued after November 30, 1989, APB Opinions, and ARB's, no matter when issued, except those that conflict with a GASB pronouncement.

**NOTE 2. Cash and Cash Equivalents**

State statutes authorize the investment of the District's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The District is also allowed to invest in United States Government obligations. All funds of the District must follow the following investment policies.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the District. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asking price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

At June 30, 2008 the carrying amount of the District's deposits was \$434,133, including cash on hand of \$300, demand deposits of \$242,584, and Certificates of Deposit of \$191,249. Of the balances \$200,000 was covered by federal depository insurance and the remaining balance was covered by collateral held in joint safekeeping.

New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the District for a least one half of the amount on deposit with the institution. The schedule listed below will meet the State of New Mexico Office of the State Auditor's requirements in reporting the insured portion of the deposits.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008

**NOTE 2. Cash and Cash Equivalents (continued)**

	<u>Wells Fargo</u>
Total checking deposits	\$ 247,970
Total savings deposits	185,768
Less: FDIC coverage	(200,000)
Uninsured public funds	233,738
Pledged collateral held by pledging bank's trust department in the agency's name	(302,485)
Uninsured and uncollateralized	\$ -

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the District. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

*Custodial Credit Risk – Deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to them. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the District's bank balance of \$433,738 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 3. Investments**

As of June 30, 2008, the District had the following investments:

Investment	Maturities	Fair Value
State investment pool	<180 days	\$ 967,283

*Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 3. Investments (continued)**

no investment policy that would further limit its investment choices.

The investments are valued at fair value based on quoted market prices as of the valuation date.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government.

The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares; 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 amounts of the funds were invested. Any unrealized gain or loss on the portfolio is distributed through the investment yield on distribution dates. The State of New Mexico is the regulatory oversight entity and participation in the pool is voluntary. At June 30, 2008, the New MexiGROW Local Government Investment Pool was rated at AAAM and was considered a 46-day WAM.

Participation in the local government investment pool is voluntary.

**NOTE 4. Accounts Receivable**

The following is a summary of the accounts receivable:

	June 30, 2008
Patient	\$ 213,600
Property Tax Receivable	50,609
Medicare	11,292
State of New Mexico - RPHCA	20,314
Employee Advances	4,500
Other	300
	300,615
Allowance for Uncollectible Accounts (Patient receivable)	(69,762)
	\$ 230,853

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008

**NOTE 4. Accounts Receivable (continued)**

The vast majority of all patient receivables are concentrated in one geographical region, specifically Lea County.

**NOTE 5. Capital Assets**

The following is an analysis of the capital assets:

	June 30, 2007	Additions	Deletions	June 30, 2008
Capital Assets, Not Being Depreciated:				
Land	\$ 8,701	\$ -	\$ (5,001)	\$ 3,700
Capital Assets, Being Depreciated:				
Land Improvements	9,976	-	(9,976)	-
Building and Improvements	1,307,426	13,095	(178,211)	1,142,310
Equipment	263,487	38,032	(12,304)	289,215
Total Capital Asset Being Depreciated	<u>1,589,590</u>	<u>51,127</u>	<u>(205,492)</u>	<u>1,435,225</u>
Less Accumulated Depreciation:				
Land Improvements	(9,976)	-	9,976	-
Building and Improvements	(265,175)	(58,684)	166,168	(157,691)
Equipment	(109,050)	(38,436)	11,118	(136,368)
	<u>(384,201)</u>	<u>(97,120)</u>	<u>187,262</u>	<u>(294,059)</u>
	<u>\$ 1,205,389</u>	<u>\$ (45,993)</u>	<u>\$ (18,230)</u>	<u>\$ 1,141,166</u>

Depreciation expense for the year ended December 31, 2008 was \$97,120.

**NOTE 6. Retirement Plan**

*Employer Funded Plan*

Effective July 1, 1991, the Jal Hospital District adopted an employer funded defined contribution retirement plan. The plan does not require the employees to contribute to the plan and no contributions were made by the employees into this plan for the fiscal year ended June 30, 2008. The plan allows the District to fund 0% to 15% of the gross salary of the employee, with the specific percent reviewed and approved by the Board of Trustees quarterly.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008**

**NOTE 6. Retirement Plan (continued)**

The plan has adopted a vesting schedule as follows:

Year	Percent Vested
1	0
2	20
3	40
4	60
5	80
6	100

The funds of the plan are invested in individual annuities for each participant with the Equitable Life Insurance Company. The annuities provide for a declining early withdrawal penalty that is applied in certain circumstances. The penalty begins at 6% in year one and declines to zero after year twelve.

Contributions to the plan for the year ended June 30, 2008 were \$44,092.

*New Mexico Public Employees Retirement Act (PERA)*

The Jal Hospital District does not qualify to participate in PERA, the New Mexico retirement plan alternative.

**NOTE 7. State Grant**

The District received \$120,000 for the year ended June 30, 2008 which was used for normal operating expenses. The grant was from the State Department of Health, Rural Primary Health Care Act. This grant is available each year subject to the normal grant process.

**NOTE 8. Insurance Coverage**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District participates in a variety of insurance programs. Insurance coverage is purchased primarily through commercial carriers. Unemployment compensation is handled through the Joint Unemployment Compensation Plan. Worker's compensation is handled through a private carrier, New Mexico Mutual Casualty, and is funded by the District.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE 9. Compensated Absences**

The District has a liability for accrued vacation for the year ended June 30, 2008 as follows:

Accrued vacation - beginning of year	\$	5,565
Additions		20,869
Deletions		(8,651)
Accrued vacation - end of year	\$	<u>17,783</u>

Of the \$17,783 balance, \$0 is due within one year.



**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
STATEMENT OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 380,000	\$ 380,000	\$ 605,055	\$ (225,055)
Charges for services	473,000	473,000	253,840	219,160
RPHCA Fund	120,000	120,000	99,686	20,314
Investment earnings	30,000	30,000	48,655	(18,655)
Rental income	3,600	3,600	7,200	(3,600)
Miscellaneous	5,400	5,400	15,847	(10,447)
<b>Total Revenues</b>	<u>1,012,000</u>	<u>1,012,000</u>	<u>1,030,283</u>	<u>(18,283)</u>
<b>EXPENDITURES</b>				
Personnel services	756,305	756,305	630,585	125,720
Contractual services	60,500	60,500	56,219	4,281
Utilities	46,500	46,500	24,330	22,170
Repairs and maintenance	46,000	46,000	73,304	(27,304)
Other supplies and expenses	118,000	118,000	140,929	(22,929)
Insurance claims and expenses	75,000	75,000	74,994	6
Licenses and dues	5,500	5,500	-	5,500
Miscellaneous	35,000	35,000	17,151	17,849
Capital outlay	330,000	330,000	51,247	278,753
<b>Total Expenditures</b>	<u>1,472,805</u>	<u>1,472,805</u>	<u>1,068,759</u>	<u>404,046</u>
Excess (deficiency) of revenues over expenditures	(460,805)	(460,805)	(38,476)	<u>\$ (422,329)</u>
Prior Year Cash Balance	<u>155,261</u>	<u>155,261</u>		
End of the Year Cash Balance	<u>\$ (305,544)</u>	<u>\$ (305,544)</u>		
<b>RECONCILIATION TO GAAP</b>				
Depreciation expense			(97,120)	
Capital asset additions			51,247	
Accounts payable			(5,869)	
Property tax receivable			50,609	
Accounts receivable			180,244	
Prepaid insurance			26,761	
Payroll liabilities			<u>(69,511)</u>	
Excess (deficiency) of revenues over expenditures			<u>\$ 97,885</u>	

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
**SCHEDULE OF DEPOSITORY COLLATERAL**  
June 30, 2008

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2008	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 666353 Due: 11/01/32 Cusip: 31391GH66	\$ 56,249	Wells Fargo Bank California
Wellls Fargo Bank	FNCL 831549 Due: 05/01/36 Cusip: 31407HZN9	<u>246,236</u>	Wells Fargo Bank California
Total		\$ <u><u>302,485</u></u>	

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
SCHEDULE OF DEPOSIT ACCOUNTS AND CASH ON HAND  
June 30, 2008**

<u>Name of Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
Wells Fargo Bank	General	Checking	\$ 247,970	\$ 242,584
Wells Fargo Bank	CD Account	Certificate of Deposit	<u>185,768</u>	<u>191,249</u>
Bank Total			<u>\$ 433,738</u>	
Cash on Hand				<u>300</u>
				<u>\$ 434,133</u>

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**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**

To the Board of Trustees  
Jal Hospital District  
Management of Jal Hospital District  
Jal, New Mexico  
and  
Mr. Hector H. Balderas, State Auditor:

We have audited the accompanying financial statements of the business-type activities of the Jal Hospital District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statements presented as supplemental information as of and for the year ended June 30, 2008, and have issued our report thereon dated October 15, 2008. We conducted our audit 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2008-1 and 2008-2.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Jal Hospital District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's Board of Trustees, the District's management, the New Mexico Department of Finance and Administration, the New Mexico State Legislature and the State of New Mexico Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

  
Miller & Associates, CPA, P.C.  
October 15, 2008

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2008**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

2008-1: DISPOSITION OF PROPERTY

Condition:

During the testing of capital assets we noted that the District did not notify the State Auditor's office when disposing of property.

Criteria:

Section 13-6 and 13-6-2 NMSA 1978, and the procurement code govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies. At least thirty days prior to such disposition of property, written notification of the official finding and disposition duly sworn and subscribed under oath by each member of the Board of Trustees must be sent to the State Auditor.

Cause:

The District does not have a procedure in place to ensure that the State Auditor is notified prior to disposition of property.

Effect:

The District is non-compliant with Section 13-6-2 NMSA 1978.

Recommendation:

The District should develop and enforce policies and procedures to ensure that the State Auditor's Office is notified at least thirty days prior to disposition of property and that no additional items are disposed of that are not approved.

Response:

The Jal Hospital District will develop and enforce policies and procedures to ensure that the State Auditor's Office is notified at least thirty days prior to disposition of property and that no additional items will be disposed of without prior approval.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2008**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)**

**2008-2: OVERSPENDING OF CERTAIN BUDGET LINE ITEMS**

**Condition:**

During our examination we noted that two function line items in the General Fund had expenditures in excess of budgeted amounts. Repairs and maintenance of \$25,644 and other supplies and expenses of \$24,589.

**Criteria:**

State budgeting requirement 6.20.2.9 NMSA 1978 sets forth budget preparation standards and states that budgetary control shall be at the function level and that over-expenditure of a function shall not be allowed.

**Cause:**

No budget line item transfers for the overages were proposed or approved by the District.

**Effect:**

The District is in violation of the law which requires each fund to disburse money for its specific purpose in accordance with their budget.

**Recommendation:**

We recommend that the District perform a periodic review of the budget. Any anticipated budgetary transfers can be isolated and authorization can be obtained before the overspending of line item expenditures.

**Response:**

The Jal Hospital District will perform a periodic review of the budget. Any anticipated budgetary transfers will be isolated and authorized to eliminate overspending of budget line items.

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2008**

**B. PRIOR YEAR AUDIT FINDINGS**

There were no prior year findings.



**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
EXIT CONFERENCE  
June 30, 2008**

**Financial Statement Preparation**

The financial statements together with the related footnotes and supporting schedules were prepared by Miller & Associates, CPA, P.C. for the District as of and for the year ended June 30, 2008.

**Exit Conference**

An exit conference was held on October 15, 2008 to discuss the financial statements and this report. Ryan Miller, Principal represented Miller & Associates, CPA, PC. Carolynn Swain, Business Manager and Minnie Hedgpath, Board of Directors Secretary/Treasury represented the Jal Hospital District.