

Accounting & Consulting Group, LLP

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Certified Public Accountants

**Jal Hospital District**  
**Annual Financial Report**  
**For the Year Ended June 30, 2010**



**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT**

**FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS  
JUNE 30, 2010**

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**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
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June 30, 2010

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**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT**

Official Roster  
June 30, 2010

<u>Name</u>		<u>Title</u>
	<u>Board</u>	
Stephen Aldridge		Chairman
W.E. Armstrong		Vice Chairman
Joyce Pittam		Secretary/Treasurer
Saul Monroy		Member
Jim Ellison		Member
	<u>Officials</u>	
Carolynn Swain		Office Manager

## **FINANCIAL SECTION**



Accounting & Consulting Group, LLP  
Certified Public Accountants

## **Independent Auditors' Report**

Hector Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
Management of Jal Hospital District  
Jal Hospital District  
Las Cruces, New Mexico

We have audited the accompanying financial statements of the business-type activities of Jal Hospital District (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of Jal Hospital 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 Jal Hospital District, as of June 30, 2010, 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 statements referred to above present fairly, in all material respects, the budgetary comparison presented as supplementary 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 our report dated October 14, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements and the budgetary comparison presented as supplemental information. The accompanying financial information listed as additional supplemental information in the table 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, NM  
October 14, 2010



**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2010

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, 2010. This information is presented in conjunction with audited financial statements that follow this section.

**Financial Highlights**

- The District's total assets decreased by \$230,022 while total liabilities decreased by \$1,716 resulting in total net assets decreasing \$228,306. The decrease in total assets is due to user fee revenue from patient activity decreasing as many companies are no longer offering medical or dental insurance coverage for their employees. Therefore there was an increase in patients that no longer have insurance coverage and now qualify for discounts under the Sliding Fee Schedule. The cost to operate the medical and dental facilities increased. Investment income decreased due to the slow return of the market recovery.
- The District's non-operating revenue in fiscal year 2009-2010 decreased by \$99,844 due to the decrease in mill levy monies received through oil and gas production. The investment monies normally received were also affected by the market down turn.
- As of the close of the current fiscal year, the District reported an ending fund balance of \$2,403,659.

**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).

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2010

The financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*government activities*) from other functions that are intended to recover all or a significant portion of their 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 12-25 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 decreased by \$83,282 primarily due to the decrease of productivity in the oil and gas industry.
- Investment income decreased by \$9,418 primarily from the investment interest being considerably less than estimated from the New Mexico State Treasurer's investment pool.
- Contractual grants stayed the same as in the prior year in the 2010 fiscal year.

**Business-type activities**

- Business type revenue decreased \$33,960 due to the number of patients that no longer have insurance coverage and now qualify for discounts. The dental clinic has been covered by a locum tenens dentist and the total encounters are down. There have been several weeks during the year that the dental clinic had no coverage at all. Insurance adjustments are greater at the dental clinic as the locum tenens dentist is considered out-of-network for coverage at the dental clinic.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2010

**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 2010</b>	<b>FY 2009</b>	<b>Total Change</b>
Current and Other Assets	\$1,491,608	\$1,629,759	\$(138,151)
Capital Assets	979,864	1,071,735	(91,871)
<b>Total Assets</b>	<b>2,471,472</b>	<b>2,701,494</b>	<b>(230,022)</b>
<b>Total Liabilities</b>	<b>67,813</b>	<b>69,529</b>	<b>(1,716)</b>
<b>Total Net Assets</b>	<b>\$2,403,659</b>	<b>\$2,631,965</b>	<b>\$(228,306)</b>

As can be seen from the table above, net assets decreased \$228,306 to \$2,403,659 in fiscal year 2010 from \$2,631,965 in fiscal year 2009.

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

	<b>FY 2010</b>	<b>FY 2009</b>	<b>Dollar Change</b>
Operating Revenues	\$269,689	\$303,649	\$ (33,960)
Non-Operating Revenues	701,474	789,938	(88,464)
<b>Total Revenues</b>	<b>971,163</b>	<b>1,093,587</b>	<b>(122,424)</b>
Depreciation Expense	94,997	98,128	(3,131)
Other Operating Expenses	1,104,472	1,088,332	16,140
<b>Total Expenses</b>	<b>1,199,469</b>	<b>1,186,460</b>	<b>13,009</b>
<b>Decrease in Net Assets</b>	<b>(228,306)</b>	<b>(92,873)</b>	<b>(135,433)</b>
<b>Beginning Net Assets</b>	<b>2,631,965</b>	<b>2,724,838</b>	<b>(92,873)</b>
<b>Ending Net Assets</b>	<b>\$2,403,659</b>	<b>\$2,631,965</b>	<b>\$ (228,306)</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**  
**JAL HOSPITAL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2010

The District's total revenues decreased by \$122,424 due to the decrease in the amount received from property tax, the decrease in the number of patients seen and amounts received from insurance companies.

**BUDGETARY HIGHLIGHTS**

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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 and gas production being greater than estimated 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 2010 budget comparison and analysis is presented in Table A-3

**Table A-3**  
**Budget vs. Actual**  
**Year Ended June 30, 2010**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>			
Property Taxes	\$ 330,000	\$ 510,749	\$ 180,749
Charges For Services	323,000	138,904	(184,096)
RPHCA Fund	120,000	110,654	(9,346)
Investment Earnings	10,000	13,114	3,114
Rental Income	4,400	6,000	1,600
Miscellaneous	5,400	-	(5,400)
<b>Total Revenues</b>	<b>792,800</b>	<b>779,421</b>	<b>(13,379)</b>
<b>Expenses</b>			
Personnel Services	912,993	750,129	162,864
Contractual Services	63,000	50,412	12,588
Utilities	40,000	16,596	23,404
Repairs and Maintenance	65,000	36,113	28,887
Other Supplies and Expenses *	175,500	97,596	77,904
Insurance Claims and Expenses	75,000	79,219	(4,219)
Licenses and dues	8,000	-	8,000
Miscellaneous	60,000	21,763	38,237
Capital Outlay	480,000	3,126	476,874
<b>Total Expenses</b>	<b>1,879,493</b>	<b>1,054,954</b>	<b>824,539</b>
<b>Operating (Loss) Income</b>	<b>\$(1,086,693)</b>	<b>\$ (275,533)</b>	<b>\$ (837,918)</b>

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Management's Discussion and Analysis  
June 30, 2010

\* 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 2010</b>	<b>FY 2009</b>	<b>Change</b>
Property, plant and equipment	\$1,463,789	\$ 1,460,663	\$ 3,126
Less: Accumulated Depreciation	(483,925)	(388,928)	(94,997)
<b>Total Capital Assets</b>	<b>\$ 979,864</b>	<b>\$ 1,071,735</b>	<b>\$ (91,871)</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 three years, it is apparent that a larger dental facility is needed to produce greater dental production and provide the space for a dental hygienist and an insurance clerk.

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

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The Board of Trustees of the District considered many factors when setting the fiscal year 2011 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.

## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**

Statement of Net Assets

June 30, 2010

**ASSETS**

Current assets:

Cash and cash equivalents (Note 2)	\$ 299,373
Investments in the State General Fund investment pool (Note 2)	982,397
Accounts receivable, net (Note 3)	176,669
Inventory	7,886
Prepaid expenses	<u>25,283</u>

Total current assets 1,491,608

Non-current assets:

Capital assets, net of accumulated depreciation (Note 4)	<u>979,864</u>
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Total assets \$ 2,471,472

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 4,758
Payroll liabilities	33,803
Other current liabilities	<u>4,932</u>

Total current liabilities 43,493

Non-current liabilities:

Compensated Absences (Note 8)	<u>24,320</u>
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Total liabilities 67,813

Net Assets:

Invested in capital assets	979,864
Unrestricted	<u>1,423,795</u>

Total net assets 2,403,659

Total liabilities and net assets \$ 2,471,472

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 Net Assets  
For the Year Ended June 30, 2010

Unrestricted net assets:	
Operating revenues:	
Charges for services	\$ 269,689
Total operating revenues	<u>269,689</u>
Operating expenses:	
Personnel services	808,225
Contractual services	55,170
Utilities	27,976
Repairs and maintenance	36,113
Other supplies and expenses	95,567
Insurance claims and expenses	55,965
Depreciation	94,997
Miscellaneous expenses	<u>25,456</u>
Total operating expenses	<u>1,199,469</u>
Operating income (loss)	<u>(929,780)</u>
Non-Operating Revenues:	
State Department of Health Grant, RPHCA (Note 7)	120,000
Property taxes	547,287
Interest income	13,114
Miscellaneous income	15,073
Rental revenue	<u>6,000</u>
Total non-operating revenues	<u>701,474</u>
Decrease in net assets	(228,306)
Total net assets - beginning of year	<u>2,631,965</u>
Total net assets - end of year	<u>\$ 2,403,659</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, 2010

Cash flows from operating activities:	
Cash received from customers	\$ 285,008
Cash paid to suppliers	(298,849)
Cash paid to employees	(806,941)
Net cash provided (used) by operating activities	<u>(820,782)</u>
Cash flows from non-capital financing activities:	
Cash received from grants	120,000
Property tax receipts	547,287
Miscellaneous revenue received	15,073
Rental revenue received	6,000
Net cash (used) by non-capital financing activities	<u>688,360</u>
Cash flows from capital and related financing activities:	
Payments for capital assets	<u>(3,126)</u>
Net cash (used) by capital and related financing activities	<u>(3,126)</u>
Cash flows from investing activities:	
Interest revenue received	<u>11,437</u>
Net cash (used) by investing activities	<u>11,437</u>
Net increase (decrease) in cash	(124,111)
Cash - beginning of year	<u>423,484</u>
Cash - end of year	<u>\$ 299,373</u>
Reconciliation of net operating income (loss) to net cash (used) by operating activities:	
Operating income (loss)	\$ (929,780)
Adjustments to reconcile net operating income (loss) to net cash (used) by operating activities:	
Depreciation expense	94,997
Changes in assets and liabilities:	
Receivables, net	15,319
Inventory	138
Prepaid expense	259
Payroll liabilities	(4,038)
Accounts payable	(2,999)
Other current liabilities	(690)
Accrued liabilities	6,012
Net cash (used) by operating activities	<u>\$ (820,782)</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, 2010

**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 (medical 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.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

*A. Nature of Business(continued)*

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.

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.

*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*

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.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

*C. Measurement Focus and Basis of Accounting(continued)*

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, including those issued after November 30, 1989, APB Opinions, and ARB's, except those that conflict with a GASB pronouncement.

The accounts of the District are organized on the basis of fund type. The District has one fund which is considered a proprietary fund.

Proprietary Funds: (Unrestricted Funds)

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

The unrestricted funds (proprietary 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*.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

*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.

These budgets are prepared on the Non-GAAP cash budgetary basis. Budgetary expenditures exclude encumbrances. The budget secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual revenues, expenditures and other financing sources and uses on a budgetary basis. Since accounting principles applied for purposes of developing revenues and expenditures on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America (GAAP), a reconciliation of resultant basis, perspective, equity and timing differences in the net change in fund balance is presented for the year ended June 30, 2010. Reconciliation between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis can be found on the budgetary comparison statement.

*F. Assets, Liabilities and Equity*

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

**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. The District method of accounting for inventory is the consumption method. Under the consumption approach,

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

F. *Assets, Liabilities and Equity(continued)*

the District reports inventories they purchase as an asset and defer recognition of the expenditures until the period in which the inventories are actually consumed.

**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:** State law sets a capitalization threshold of \$5,000 for acquisitions of property and equipment. The District has elected not to follow State policy. Instead, 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	10-35 years
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, 2010

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

*F. Assets, Liabilities and Equity(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 whom the tax bill is sent. Tax bills shall be mailed no later than November 1 of each tax year.

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

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

H. *Estimates(continued)*

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.

I. *Grant and Contributions*

From time to time, the District receives grants from the State of New Mexico 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, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

J. *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.

**NOTE 2. Deposits and Investments**

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.



**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

At June 30, 2010 the carrying amount of the District’s deposits was \$319,647. Of the balance of \$250,000 was covered by federal depository insurance and the remaining balance was covered by collateral held by the pledging bank’s department or agent.

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 \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). 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 at least one half of the amount on deposit with the institution. At June 30, 2010, \$69,647 of the District’s deposits of \$319,647 were exposed to custodial credit risk. \$69,647 was uninsured and collateralized by collateral held by the pledging bank’s department or agent, not in the District’s name. 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.

	<b>Wells</b>
	<b>Fargo</b>
Year ended June 30, 2010	
Total amount of deposits	\$ 319,647
FDIC Coverage	(250,000)
Total uninsured public funds	69,647
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	69,647
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured public funds)	\$ 34,824
Pledged securities	199,309
Over (under) collateralization	\$ 164,485

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

*Reconciliation to the Statement of Net Assets*

The carrying amounts of deposits shown above are included in the District's statements of net assets as follows:

		<b>2010</b>	
Petty Cash	\$	300	
Deposits		319,647	
Reconciling items		(20,574)	
Carrying amount	\$	299,373	

Included in the following Statement of  
Net Assets captions:

Cash and cash equivalents	\$	299,373	
Total	\$	299,373	

Investments

The District invests excess cash in the State Treasurer Local Government Investment Pool. The Pool's investments are valued at fair value based on quoted market prices as of the valuation date. The New Mexico State Treasurer 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 or backed by the United States Government or by its departments or agencies and are either direct obligations of the United States Government or agencies sponsored by the United States Governments. The Local Government Investment Pool's investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the fund is voluntary. See Note 9, Subsequent Events, for additional information concerning the District's investments in the State Treasurer Local Government Investment Pool.

As of June 30, 2010, the District had the following investments:

<u>Investments</u>	<u>Rated</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
New Mexico Grow Local Government Investment Pool	AAAm	50 Days	\$ 978,645
Reserve Contingency Fund	Unrated	Does not earn interest	\$ 3,752

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

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

*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.

**NOTE 3. Accounts Receivable**

The following is a summary of the accounts receivable:

	June 30, 2010
Patient	\$ 219,699
Property Tax Receivable	36,538
Medicare	8,746
State of New Mexico - RPHCA	9,346
	\$ 274,329
Allowance for Uncollectible Accounts (Patient receivable)	(97,660)
	\$ 176,669

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

**NOTE 4. Capital Assets**

The following is an analysis of the capital assets:

	June 30, 2009	Additions	Deletions	June 30, 2010
Capital Assets, Not Being Depreciated:				
Land	\$ 3,700	\$ -	\$ -	\$ 3,700
Capital Assets, Being Depreciated:				
Building and Improvements	1,146,865	-	-	1,146,865
Equipment	310,098	3,126	-	313,224
Total Capital Asset Being Depreciated	1,460,663	3,126	-	1,463,789
Less Accumulated Depreciation:				
Building and Improvements	(217,134)	(59,536)	-	(276,670)
Equipment	(171,794)	(35,461)	-	(207,255)
	(388,928)	(94,997)	-	(483,925)
	\$ 1,075,435	\$ (91,871)		\$ 979,864

Depreciation expense for the year ended June 30, 2010 was \$94,997.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

**NOTE 5. 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, 2010. 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.

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. Employer contributions to the plan for the year ended June 30, 2010 were \$35,825.

*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 6. State Grant**

The District received \$120,000 for the year ended June 30, 2010 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 7. 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.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

**NOTE 7. Insurance Coverage(continued)**

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.

**NOTE 8. Compensated Absences**

The District has a liability for accrued vacation for the year ended June 30, 2010 as follows:

Accrued vacation - beginning of year	\$	18,308
Additions		12,412
Deletions		(6,400)
Accrued vacation - end of year	\$	<u>24,320</u>

Of the \$24,320 balance, \$8,988 is due within one year.

**NOTE 9. Subsequent Events**

The New Mexico State Treasurer's Office invested a portion of the LGIP in the Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, the Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. Since September 2008, the Reserve Primary Fund has returned approximately \$0.90 per share to shareholders. On February 26, 2009, the Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from the Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date. The total remaining Reserve Primary Fund position as of June 30, 2009 is \$39.5 million. The LGIP's remaining position in the Reserve Primary Fund is a non-performing asset.

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of the Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining Fund's assets; and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against the Reserve Primary Fund. The court is scheduled to hold a hearing on the SEC's proposed plan of distribution on September 23, 2009.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

**NOTE 9. Subsequent Events (continued)**

On May 20, 2009, the New Mexico Attorney General filed a civil complaint and injunction petition in state district court against the Reserve Primary Fund. The Attorney General's complaint alleges that the Fund setting aside \$3.5 billion to pay legal fees and expenses is a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleges that the Fund's failure to honor redemption requests on September 16, 2008 is a breach of contract. Additionally, the Attorney General's injunction petition seeks the release of the investors' pro rata share of the \$3.5 billion the Reserve Primary Fund set aside for its anticipated and pending legal costs.

The New Mexico State Treasurer's Office believes that the Reserve Primary Fund will ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in the Reserve Primary Fund as of September 15, 2008. This means that of the remaining undistributed balance as of June 30, 2009, it is expected the LGIP is to recover between 83.84% and 87.78%. Uncertainty remains, however, as to the timing of these distributions.

**NOTE 10. Subsequent Pronouncements**

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The District is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer,

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Notes to the Financial Statements  
June 30, 2010

**NOTE 10. Subsequent Pronouncements**

more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The District is analyzing the effect that this standard will have on the financial statements.

**SUPPLEMENTARY INFORMATION**



**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT**

Statement of Revenues and Expenses and Changes in Net Assets-  
Budget (Non-GAAP Cash Basis) and Actual  
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<b>Non-GAAP</b>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>	<b>Budgetary</b>	<b>with Final</b>
			<b>Actual</b>	<b>Budget</b>
<b>REVENUES</b>				
Property taxes	\$ 330,000	\$ 330,000	\$ 510,749	\$ 180,749
Charges for services	323,000	323,000	138,904	(184,096)
RPHCA Fund	120,000	120,000	110,654	(9,346)
Investment earnings	10,000	10,000	13,114	3,114
Rental income	4,400	4,400	6,000	1,600
Miscellaneous	5,400	5,400	-	(5,400)
Total Revenues	<u>792,800</u>	<u>792,800</u>	<u>779,421</u>	<u>(13,379)</u>
<b>EXPENSES</b>				
Personnel services	912,993	912,993	750,129	162,864
Contractual services	63,000	63,000	50,412	12,588
Utilities	40,000	40,000	27,976	12,024
Repairs and maintenance	65,000	65,000	36,113	28,887
Other supplies and expenses	175,500	175,500	97,596	77,904
Insurance claims and expenses	75,000	75,000	79,219	(4,219)
Licenses and dues	8,000	8,000	-	8,000
Miscellaneous	60,000	60,000	10,383	49,617
Capital outlay	480,000	480,000	3,126	476,874
Total expenses	<u>1,879,493</u>	<u>1,879,493</u>	<u>1,054,954</u>	<u>824,539</u>
<b>(Deficiency) excess of revenues over expenses</b>	(1,086,693)	(1,086,693)	(275,533)	<u>\$ (837,918)</u>
<b>Change in net assets</b>	<u>(1,086,693)</u>	<u>(1,086,693)</u>		
<b>Cash and investments required to balance budget</b>	<u>\$ 1,086,693</u>	<u>\$ 1,086,693</u>		
<b>Reconciliation to Statement of Revenues and Expenses:</b>				
Capital asset additions			(94,997)	
Accounts payable			3,126	
Property tax receivable			(4,758)	
Accounts receivable			36,538	
Prepaid Insurance			140,158	
Payroll liabilities			25,283	
			<u>(58,123)</u>	
<b>Decrease in net assets</b>			<u>\$ (228,306)</u>	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Schedule of Depository Collateral  
June 30, 2010

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2010	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 666353 Due: 11/01/32 Cusip: 31391GH66	\$ 36,423	Wells Fargo Bank California
Wellls Fargo Bank	FNCL 831549 Due: 05/01/36 Cusip: 31407HZN9	<u>162,886</u>	Wells Fargo Bank California
Total		<u>\$ 199,309</u>	

See accompanying independent auditor's report

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Schedule of Deposit and Investment Accounts  
June 30, 2010

<u>Deposit Type</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
	<u>Wells Fargo Bank</u>	<u>NM State Treasurer Local Government Investment Pool</u>	
Checking	\$ 319,647	\$ -	\$ 319,647
New Mexico Grow Local Government Investment Pool	-	978,645	978,645
Reserve Contingency Fund	-	3,752	3,752
Total	<u>319,647</u>	<u>982,397</u>	<u>1,302,044</u>
Reconciling items:			
Deposits in transit	2,740	-	2,740
Outstanding checks	<u>(23,314)</u>	<u>-</u>	<u>(23,314)</u>
Total reconciling items	<u>(20,574)</u>	<u>-</u>	<u>(20,574)</u>
Total, June 30 2010	<u>\$ 299,073</u>	<u>\$ 982,397</u>	1,281,470
Add: Petty Cash			<u>300</u>
			<u>\$ 1,281,770</u>
Deposits and investments per financial statements			
Cash and cash equivalents			299,373
Investments			982,397
Total deposits and investments			<u>\$ 1,281,770</u>

See accompanying independent auditor's report

## **COMPLIANCE SECTION**



Accounting & Consulting Group, LLP  
Certified Public Accountants

**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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison presented as supplementary information for the year ended June 30, 2010, and have issued our report thereon dated October 14, 2010. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2010-1 in the accompanying *Schedule of Financial Statement Findings and Responses* to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2010-2 in the accompanying *Schedule of Financial Statement Findings and Responses* to be a significant deficiency

#### 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Financial Statement Findings and Responses* as item 2010-3.

The District's responses to the findings identified in our audit are described in the accompanying *Schedule of Financial Statement Findings and Responses*. We did not audit Jal Hospital District's responses 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.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, NM  
October 14, 2010

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2010-1 Segregation of Duties**

Condition:

There is a lack of segregation of duties concerning the preparation of the bank reconciliation.

Criteria:

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur. (AU 325)

Effect:

Absent an adequate segregation of duties, an entity's financial statements are exposed to additional risks of misstatement due to error or fraud.

Cause:

Adequate segregation of duties is not possible due to the small size of the District's staff.

Recommendation:

Proper segregation is not always possible in a small organization. We recommend that the Board continue to provide extensive oversight and continue to implement limited segregation to the extent possible to reduce the risk of errors or fraud.

Agency Response:

The Board will request that the business office manager provide completed bank reconciliations for review at each regularly scheduled board meeting in addition to financial statements they currently receive. In regard to other segregation of duty issues , the District will seek as many remedies as possible considering their limited staff.

**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**2010-2 Preparation of Financial Statements**

Condition:

The financial statements and related note disclosures are not being prepared by the management of the District.

Criteria:

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115 Communicating Internal Control Related Matters Identified in an Audit (SAS 115), a system of internal control over financial reporting does not stop at maintaining the general ledger, rather the system should also include controls over financial statement preparation, including the preparation of the footnote disclosures.

Effect:

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Cause:

The District's personnel do not have the time and have not been adequately trained in understanding the elements of external financial reporting including the preparation of financial statements and related footnote disclosures.

Recommendation:

We recommend District management and personnel receive training on understanding the requirements of external financial reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
  - Governmental Accounting Standards Board(GASB)
  - Generally Accepted Accounting Principles(specifically as applied to governmental units)
  - Financial Accounting Standards Board(FASB)
- Understanding the financial reporting entity
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
- Supplementary information required by the Office of the State Auditor



**STATE OF NEW MEXICO**  
**JAL HOSPITAL DISTRICT**  
Schedule of Financial Statement Findings and Responses  
June 30, 2010

**2010-2 Preparation of Financial Statements (continued)**

In addition , we recommend that the District develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency Response:

The business office manager will continue to stay abreast of changing standards and report those changes to the Board. The business office manager will also continue to provide detailed financial information to the Board and auditors. The Board will implement policies and procedures designed to prevent misstatements in financial statements.

**2010-3 Capital Assets**

Condition:

During our audit test work of capital assets, we noted that fixed assets listings and depreciation schedules included assets of \$1,000 or more.

Criteria:

Pursuant to Section 12-6-10 NMSA 1978, the threshold for capital asset recognition is \$5,000.

Effect:

Using a threshold of \$1,000 to recognize capital assets instead of \$5,000 could cause capital assets to be overstated.

Cause:

The District has elected to keep its capitalization threshold of \$1,000.

Recommendation:

We recommend the District increase its capitalization threshold to \$5,000 pursuant to Section 12-6-10, NMSA 1978. In addition, it should update the depreciation schedule and capital asset listings in a timely manner.

Agency Response:

The Board will instruct the business office manager to keep capital asset listings above \$5,000 in accordance with state and law regulations.

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**PRIOR YEAR FINDINGS**

<u>Condition</u>	<u>Current Year Status</u>
2008-1-Disposition of Property	Resolved and not repeated
2009-1-Late Audit Report Submission	Resolved and not repeated

**STATE OF NEW MEXICO  
JAL HOSPITAL DISTRICT  
EXIT CONFERENCE  
June 30, 2010**

**Exit Conference**

An exit conference was held on October 14, 2010. In attendance were the following:

**Representing the Jal Hospital District:**

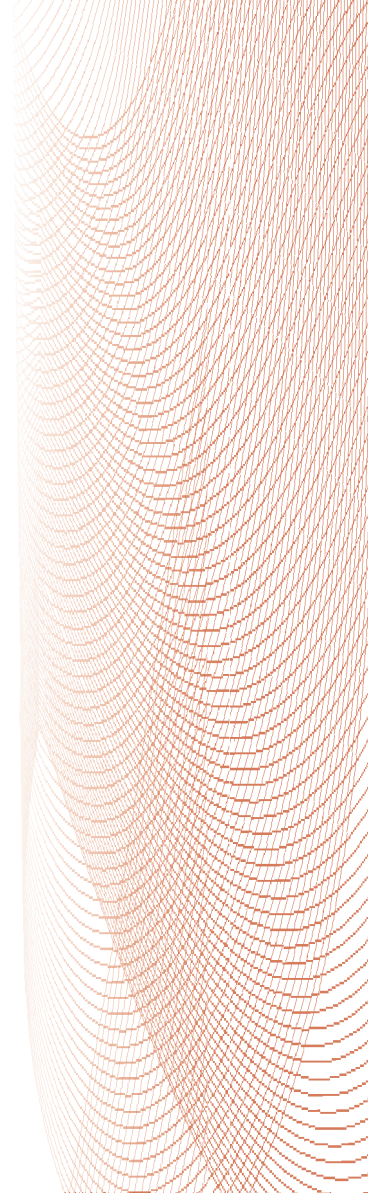
Stephen Aldridge	President
Joyce Pittam	Secretary/Treasurer

**Representing Accounting and Consulting Group, L.L.P.**

Ryan L. Miller, CPA	Partner
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**Auditor Prepared Financial Statements**

Although it would be preferred and desirable for the District to prepare its own financial statements, the District's personnel did not have the time to prepare them. Accounting and Consulting Group, L.L.P. prepared the financial statements of the Jal Hospital District from the original books and records provided to them by the management of the District. Management is responsible for the financial statements.



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