

Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico
Jal Hospital District
Financial Statements and Required
Supplementary Information
With Accompanying Auditors' Reports
June 30, 2011



**STATE OF NEW MEXICO
JAL HOSPITAL DISTRICT**

**FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
WITH ACCOMPANYING AUDITORS' REPORTS
JUNE 30, 2011**

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Jal Hospital District
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 June 30, 2011

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STATE OF NEW MEXICO

Jal Hospital District

Official Roster

June 30, 2011

<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

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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
Jal, 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, 2011, 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, 2011 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, 2011, 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 September 16, 2011 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 9-13 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
Roswell, NM
September 16, 2011

STATE OF NEW MEXICO
Jal Hospital District
Management's Discussion and Analysis
June 30, 2011

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, 2011. This information is presented in conjunction with audited financial statements that follow this section.

Financial Highlights

- The District's total assets decreased by \$96,877 while total liabilities increased by \$53,197 resulting in total net assets decreasing \$150,074. 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. There have been new patients added to our facility and with the cost of medical and dental care supplies increasing 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 2010-2011 increased by \$38,862 due to the increase in mill levy monies received through oil and gas production. The investment monies continued to remain very low and were affected by the market down turn.
- As of the close of the current fiscal year, the District reported an ending fund balance of \$2,253,585.

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 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.

STATE OF NEW MEXICO
 Jal Hospital District
 Management's Discussion and Analysis
 June 30, 2011

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 18-29 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.

Business-type activities

- Business type revenue increased \$94,683 due to the increased number of new patients when the District employed a second provider. The dental patient numbers increased due to the Hobbs, New Mexico dental clinic no longer taking Medicaid patients.

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Total Change</u>
Current and Other Assets	\$ 1,483,794	\$ 1,491,608	\$ (7,814)
Capital Assets	890,801	979,864	(89,063)
Total Assets	2,374,595	2,471,472	(96,877)
Total Liabilities	121,010	67,813	53,197
Total Net Assets	\$ 2,253,585	\$ 2,403,659	\$ (150,074)

As can be seen from the table above, net assets decreased \$150,074 to \$2,253,585 in fiscal year 2011 from \$2,403,659 in fiscal year 2010.

STATE OF NEW MEXICO
 Jal Hospital District
 Management's Discussion and Analysis
 June 30, 2011

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>
Operating Revenues	\$ 364,372	\$ 269,689	\$ 94,683
Non-Operating Revenues	735,336	701,474	33,862
Total Revenues	1,099,708	971,163	128,545
Depreciation Expense	89,063	94,997	(5,934)
Other Operating Expenses	1,160,719	1,104,472	56,247
Total Expenses	1,249,782	1,199,469	50,313
Net Income	(150,074)	(228,306)	78,232
Beginning Net Assets	2,403,659	2,631,965	(228,306)
Ending Net Assets	\$ 2,253,585	\$ 2,403,659	\$ (150,074)

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.

The District's total revenues increased by \$128,545 due to the increase in the amount received from property tax.

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 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.

STATE OF NEW MEXICO
 Jal Hospital District
 Management's Discussion and Analysis
 June 30, 2011

A fiscal year 2011 budget comparison and analysis is presented in Table A-3.

Table A-3
Budget vs. Actual
Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Property Taxes	\$ 400,000	\$ 605,889	\$ 205,889
Charges For Services	325,000	364,372	39,372
RPHCA Fund	109,000	109,000	-
Investment Earnings	10,000	5,729	(4,271)
Rental Income	8,400	10,500	2,100
Miscellaneous	6,000	4,218	(1,782)
Total Revenues	858,400	1,099,708	241,308
Expenses			
Personnel Services	980,100	857,959	122,141
Contractual Services	113,500	44,467	69,033
Utilities	40,000	28,245	11,755
Repairs and Maintenance	65,000	62,398	2,602
Other Supplies	115,000	99,041	15,959
Insurance Claims and Expenses	75,000	54,614	20,386
Licenses and dues	8,000	-	8,000
Miscellaneous	10,000	13,995	(3,995)
Capital Outlay *	480,000	-	480,000
Total Expenses	1,886,600	1,160,719	725,881
Operating (Loss) Income	\$ (1,028,200)	\$ (61,011)	\$ (967,189)

* Note: Included in the budget line is an amount budgeted for capital outlay construction. 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:

Table A-4
Capital Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>
Property, plant and equipment	\$ 1,463,789	\$ 1,463,789	\$ -
Less: Accumulated Depreciation	(572,988)	(483,925)	(89,063)
Total Capital Assets	\$ 890,801	\$ 979,864	\$ (89,063)

STATE OF NEW MEXICO
Jal Hospital District
Management's Discussion and Analysis
June 30, 2011

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 four 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:

The Board of Trustees of the District considered many factors when setting the fiscal year 2012 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

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Carolynn Swain, District Administrator, 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, 2011

Exhibit A-1

	Total
ASSETS	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 242,734
Investments	984,626
Customer receivables (net of allowance for doubtful accounts)	226,470
Inventory	6,317
Prepaid expenses	23,647
<i>Total current assets</i>	1,483,794
 <i>Noncurrent assets:</i>	
Capital assets	1,463,789
Accumulated depreciation	(572,988)
<i>Total noncurrent assets</i>	890,801
 <i>Total assets</i>	\$ 2,374,595
 LIABILITIES AND NET ASSETS	
<i>Current liabilities:</i>	
Accounts payable	\$ 33,227
Accrued payroll expenses	57,285
Accrued compensated absences	9,258
Other current liabilities	5,475
<i>Total current liabilities</i>	105,245
 <i>Non-current liabilities :</i>	
Accrued compensated absences	15,765
<i>Total noncurrent liabilities</i>	15,765
 <i>Total liabilities</i>	121,010
 <i>Net assets:</i>	
Invested in capital assets, net of related debt	890,801
Unrestricted	1,362,784
<i>Total net assets</i>	2,253,585
 <i>Total liabilities and net assets</i>	\$ 2,374,595

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, 2011

Exhibit A-2

<i>Operating revenues:</i>	
Charges for services	<u>\$ 364,372</u>
<i>Total operating revenues</i>	<u>364,372</u>
 <i>Operating expenses:</i>	
Personnel services	857,959
Contractual services	44,467
Utilities	28,245
Repairs and maintenance	62,398
Other supplies and expenses	99,041
Insurance claims and expenses	54,614
Depreciation	89,063
Miscellaneous expenses	<u>13,995</u>
<i>Total operating expenses</i>	<u>1,249,782</u>
<i>Operating income (loss)</i>	<u>(885,410)</u>
 <i>Non-operating revenues (expenses):</i>	
Operating grants	109,000
Interest income	5,729
Property taxes	605,889
Rental income	10,500
Miscellaneous income	<u>4,218</u>
<i>Total non-operating revenues (expenses)</i>	<u>735,336</u>
 <i>Change in net assets</i>	 (150,074)
<i>Net assets - beginning of year</i>	<u>2,403,659</u>
 <i>Total net assets - end of year</i>	 <u><u>\$ 2,253,585</u></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, 2011

Exhibit A-3

<i>Cash flows from operating activities:</i>	
Cash received from customers	\$ 314,571
Cash payments to employees for services	(824,676)
Cash payments to suppliers for goods and services	(271,086)
<i>Net cash provided (used) by operating activities</i>	<u>(781,191)</u>
 <i>Cash flows from noncapital financing activities:</i>	
Operating grants	109,000
Property tax receipts	605,889
Miscellaneous income	4,218
Rental income	10,500
Change in noncurrent accrued compensated absences	(8,555)
<i>Net cash provided (used) by noncapital financing activities</i>	<u>721,052</u>
 <i>Cash flows from investing activities:</i>	
Interest on investments	5,729
Purchase of investments	(2,229)
<i>Net cash provided (used) by investing activities</i>	<u>3,500</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(56,639)
<i>Cash and cash equivalents - beginning of year</i>	<u>299,373</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 242,734</u></u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (885,410)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	89,063
Changes in assets and liabilities	
Customer receivables	(49,801)
Inventory	1,569
Prepaid expenses	1,636
Accounts payable	28,469
Accrued payroll expenses	23,483
Other liabilities	542
Current accrued compensated absences	9,258
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (781,191)</u></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, 2011

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, 2011

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, 2011

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, 2011

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 GAAP 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 (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.

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, 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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 to follow State policy. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 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, 2011

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, 2011

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, 2011

NOTE 2. Deposits and Investments (continued)

At June 30, 2011 the carrying amount of the District's deposits was \$243,710. The entirety of the balance was covered by federal depository insurance.

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, 2011, none of the District's deposits of \$243,710 were exposed to custodial credit risk. No deposits were 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.

	Wells Fargo
Year ended June 30, 2011	
Total amount of deposits	\$ 243,710
FDIC Coverage	(243,710)
Total uninsured public funds	-
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	-
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured public funds)	\$ -
Pledged securities	142,639
Over (under) collateralization	\$ 142,639

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2011

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:

		June 30, 2011
Petty Cash	\$	300
Deposits		243,710
Reconciling items		(1,276)
Carrying amount	\$	242,734

Included in the following Statement of Net Assets captions:

Cash and cash equivalents	\$	242,734
Total	\$	242,734

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, 2011, 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	36 Days	\$ 981,784
Reserve Contingency Fund	Unrated	Does not earn interest	\$ 2,842

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2011

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, 2011
Patient	\$ 174,410
Property Tax Receivable	43,122
Medicare	64,230
State of New Mexico - RPHCA	8,737
	\$ 290,499
Allowance for Uncollectible Accounts (Patient receivable)	(64,029)
	\$ 226,470

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, 2010	Additions	Deletions	June 30, 2011
Capital Assets, Not Being Depreciated:				
Land	\$ 3,700	\$ -	\$ -	\$ 3,700
Capital Assets, Being Depreciated:				
Building and Improvements	1,146,865	-	-	1,146,865
Equipment	313,224	-	-	313,224
Total Capital Asset Being Depreciated	1,460,089	-	-	1,460,089
Less Accumulated Depreciation:				
Building and Improvements	(276,670)	(59,488)	-	(336,158)
Equipment	(207,255)	(29,575)	-	(236,830)
	(483,925)	(89,063)	-	(572,988)
Total capital assets, net of depreciation	\$ 979,864	\$ (89,063)		\$ 890,801

Depreciation expense for the year ended June 30, 2011 was \$89,063.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2011

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, 2011. 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, 2011 were \$41,094.

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 \$109,000 for the year ended June 30, 2011 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, 2011

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, 2011 as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Compensated Absences	\$ 24,320	\$ 30,177	\$ 29,474	\$ 25,023	\$ 9,258

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.

On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represents approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. There have been no additional distribution in the past year. The New Mexico State Treasurer's Office believes that there may be additional distributions. Uncertainty remains, however, as to the timing and amounts of these distributions. Effective November 24, 2010, all remaining assets were transferred to a liquidating services agent, Crederian Fund Services, LLC.

NOTE 10. Subsequent Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. 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, Expenses and Changes in Net Assets
 Budget (GAAP Basis) and Actual
 For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<i>Operating revenues:</i>				
Charges for services	\$ 325,000	\$ 325,000	\$ 364,372	\$ 39,372
<i>Total operating revenues</i>	<u>325,000</u>	<u>325,000</u>	<u>364,372</u>	<u>39,372</u>
<i>Operating expenses:</i>				
Personnel services	980,100	980,100	857,959	122,141
Contractual services	113,500	113,500	44,467	69,033
Utilities	40,000	40,000	28,245	11,755
Repairs and maintenance	65,000	65,000	62,398	2,602
Other supplies and expenses	115,000	115,000	99,041	15,959
Licenses and dues	8,000	8,000	-	8,000
Insurance claims and expenses	75,000	75,000	54,614	20,386
Miscellaneous	10,000	10,000	13,995	(3,995)
<i>Total operating expenses</i>	<u>1,406,600</u>	<u>1,406,600</u>	<u>1,160,719</u>	<u>245,881</u>
<i>Operating income (loss)</i>	<u>(1,081,600)</u>	<u>(1,081,600)</u>	<u>(796,347)</u>	<u>285,253</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	109,000	109,000	109,000	-
Interest income	10,000	10,000	5,729	(4,271)
Rental income	8,400	8,400	10,500	2,100
Property tax income	400,000	400,000	605,889	205,889
Investment in capital assets	(480,000)	(480,000)	-	480,000
Miscellaneous income	6,000	6,000	4,218	(1,782)
<i>Total non-operating revenues (expenses)</i>	<u>53,400</u>	<u>53,400</u>	<u>735,336</u>	<u>681,936</u>
<i>Change in net assets</i>	<u>(1,028,200)</u>	<u>(1,028,200)</u>	<u>(61,011)</u>	<u>967,189</u>
Designated cash (budgeted increase in cash)	<u>1,028,200</u>	<u>1,028,200</u>	<u>-</u>	<u>1,028,200</u>
<i>Total net assets, beginning of year</i>	-	-	2,403,659	2,403,659
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,342,648</u>	<u>\$ 2,342,648</u>
<i>Change in net assets, above</i>			\$ (61,011)	
Adjustments for depreciation and amortization			<u>(89,063)</u>	
<i>Change in net assets (Exhibit A-2)</i>			<u>\$ (150,074)</u>	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 Jal Hospital District
 Schedule of Deposit and Investment Accounts
 June 30, 2011

Deposit Type	Deposits	Investments		Total
	Wells Fargo Bank	NM State Treasurer Local Government Investment Pool		
Checking	\$ 243,710	\$ -		\$ 243,710
New Mexico Grow LGIP	-	981,784		981,784
Reserve Contingency Fund	-	2,842		2,842
Total	<u>243,710</u>	<u>984,626</u>		<u>1,228,336</u>
Reconciling items:				
Deposits in transit	3,607	-		3,607
Outstanding checks	<u>(4,883)</u>	<u>-</u>		<u>(4,883)</u>
Total reconciling items	<u>(1,276)</u>	<u>-</u>		<u>(1,276)</u>
Total, June 30, 2011	<u>\$ 242,434</u>	<u>\$ 984,626</u>		1,227,060
Add: Petty Cash				300
				<u>\$ 1,227,360</u>
Deposits and investments per financial statements				
Cash and cash equivalents				242,734
Investments				984,626
Total deposits and investments				<u>\$ 1,227,360</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
 Jal Hospital District
 Schedule of Collateral Pledged by Depository for Public Funds
 June 30, 2011

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2011	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 666353 Due: 11/01/32 Cusip: 31391GH66	\$ 34,059	Wells Fargo Bank California
Wells Fargo Bank	FNCL 831549 Due: 05/01/36 Cusip: 31407HZN9	<u>108,580</u>	Wells Fargo Bank California
Total		\$ <u><u>142,639</u></u>	

See accompanying independent auditor's report

COMPLIANCE SECTION

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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**

Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and
Board of Directors
Jal Hospital District
Jal, New Mexico

We were engaged to audit 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, 2011, which collectively comprise the Jal Hospital District’s basic financial statements as listed in the table of contents and have issued our report thereon dated September 16, 2011. We were also engaged to audit the budgetary comparisons presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2011 as listed in the table of contents. 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.

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, but not for the purpose of expressing 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, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items FS 2010-1 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 in the accompanying schedule of findings and responses as FS 2011-1 and FS 2011-2 to be significant deficiencies.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain other matter that is required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding FS 2011-3.

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 the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the New Mexico Legislature, the New Mexico Department of Finance and Administration, the Office of the State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Roswell, New Mexico
September 16, 2011

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2011

Section I – Summary of Audit Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2011

Section II – Financial Statement Findings and Responses

FS 2010-1 Segregation of Duties-Material Weakness

Condition:

There is a lack of segregation of duties concerning the preparation of the bank reconciliation. The bank reconciliations are not reviewed after they have been prepared.

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 District's limited 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.

Views of Responsible Officials and Planned Corrective Actions:

The Jal Hospital District Board of Trustees will continue to provide extensive oversight and continue to implement limited segregation to the extent possible to reduce the risk of errors or fraud.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2011

Section II – Financial Statement Findings and Responses (continued)

FS 2011-1 Failure to Locate Supporting Documentation for Receipts – Significant Deficiency

Condition:

During our testwork of cash receipts, 1 out of 5 items tested lacked the deposit slip for supporting documentation.

Criteria:

Sound accounting practices and NMSA 6-5-2.1 require the District to maintain records along with all other supporting documents for receipts so that verification of correctness may be ascertained.

Effect:

The required supporting documents were not available for inspection. Not having the supporting documentation available for review could result in misappropriations or mistakes not being detected.

Cause:

The inability to locate the supporting document is due to the fact that the deposit slip was misplaced.

Recommendation:

We recommend that the Jal Hospital District ensure that all receipts are filed away in a designated location in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:

Jal Hospital District will make every effort to ensure all receipts are filed in a designate location in a timely manner.

FS 2011-2 Untimely Medicare Billings – Significant Deficiency

Condition:

During our testwork of accounts receivable, it was noted that Medicare billings had not been completed for six months.

Criteria:

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Good internal controls require that accounts receivable be billed in a timely manner.

Effect:

Untimely billings could result in the loss of revenue for the District as accounts receivable become harder to collect the longer they are allowed to age.

Cause:

Circumstances arose that prevented the accounts receivable clerk responsible for Medicare billings to complete them in a timely manner. The District does not have another employee cross-trained in preparing Medicare billings if the accounts receivable clerk is unable to do so.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2011

Section II – Financial Statement Findings and Responses (continued)

FS 2011-2 Untimely Medicare Billings – Significant Deficiency (continued)

Recommendation:

We recommend that the Jal Hospital District cross-train another employee in preparing Medicare billings.

Views of Responsible Officials and Planned Corrective Actions:

Every effort will be made to prepare Medicare billings sooner. Although our office is cross-trained, the work load of each employee does not allow for taking over another position.

FS 2011-3 Untimely Deposits - Other

Condition:

During our testwork of receipts we noted that 2 out of the 5 receipts tested were not deposited within 24 hours of receipt. These receipts totaled \$65.23 out of \$455.56 tested.

Criteria:

Sound accounting practices require the District to cash within 24 hours of receipt.

Effect:

Money is at a higher risk of being unaccounted for, either intentionally or unintentionally.

Cause:

For the fiscal year 2011 management did not have a documented policy to ensure that deposits were deposited within 24 hours of receipt.

Auditors' Recommendation:

We recommend that the Jal Hospital District formally document a process to ensure that cash receipts are deposited within 24 hours.

Views of Responsible Officials and Planned Corrective Actions:

The Jal Hospital District will formally document a process that ensures that cash receipts are deposited within (24) twenty-four hours of receipt. At times this is not possible due to the local bank closing on Friday before our office work is completed. On bank holidays it is not possible to deposit within (24) twenty-four hours.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2011

Section III - Schedule of Prior Year Audit Findings

FS 2010-1	Segregation of Duties	Revised and Repeated
FS 2010-2	Preparation of Financial Statements	Resolved
FS 2010-3	Capital Assets	Resolved

STATE OF NEW MEXICO
Jal Hospital District
Other Disclosures
For the Year Ended June 30, 2011

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Although it would be preferred and desirable for the District to prepare its own GAAP-basis financial statements, it is felt that the District's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

B. EXIT CONFERENCE

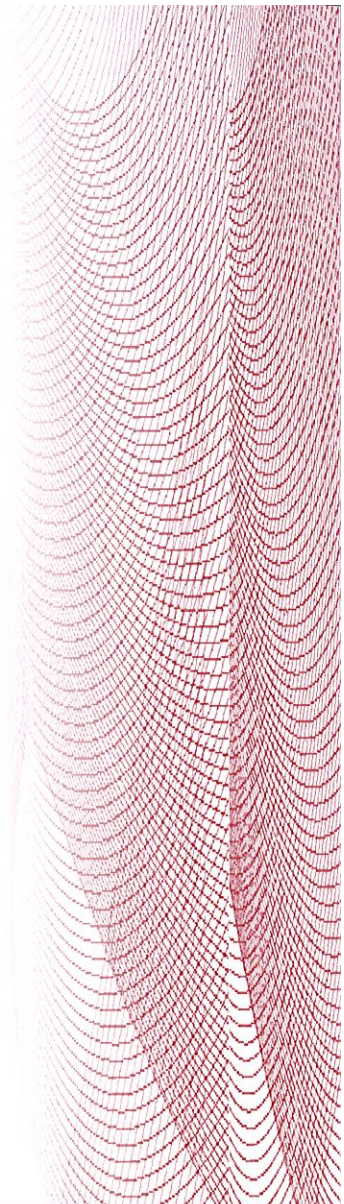
The contents of this report were discussed on September 16, 2011. The following individuals were in attendance.

Jal Hospital District Officials

Joyce Pittam	Board Member
Carolynn Swain	Office Manager

Accounting and Consulting Group, LLP

Bethany Benavides	Staff
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