

Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico
JAL HOSPITAL DISTRICT
Annual Financial Report
June 30, 2012



STATE OF NEW MEXICO
JAL HOSPITAL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2012

INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Jal Hospital District
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 June 30, 2012

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STATE OF NEW MEXICO

Jal Hospital District

Official Roster

June 30, 2012

<u>Name</u>		<u>Title</u>
	<u>Board of Trustees</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

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FINANCIAL SECTION

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Accounting & Consulting Group, LLP
Certified Public Accountants

Independent Auditors' Report

Hector Balderas
New Mexico State Auditor and
The Board of Trustees
Jal Hospital District
Jal, New Mexico

We have audited the accompanying basic financial statements of the business-type activities of the Jal Hospital District as of and for the year ended June 30, 2012 as listed in the table of contents. We have also audited the budgetary comparison presented as supplementary information in the accompanying Statement A-1 for the year ended June 30, 2012. 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. 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 Jal Hospital 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 respective financial position of the business-type activities of Jal Hospital District, as of June 30, 2012, and the respective changes in financial position, and where applicable, 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 budgetary comparisons referred to above present fairly, in all material respects, the budgetary comparisons of the District as of June 30, 2012, 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 8, 2012 on our consideration of the Jal Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Jal Hospital District, and the budgetary comparison. The accompanying financial information listed as supporting Schedules I-III in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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, New Mexico
October 8, 2012

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
 Jal Hospital District
 Statement of Net Assets
 June 30, 2012

Exhibit A-1

	Total
ASSETS	
Current assets	
Cash and cash equivalents	\$ 113,871
Investments	984,526
Customer receivables (net of allowance for doubtful accounts)	227,481
Inventory	4,313
Prepaid expenses	24,119
Total current assets	1,354,310
Noncurrent assets	
Capital assets	1,485,462
Accumulated depreciation	(661,506)
Total noncurrent assets	823,956
Total assets	\$ 2,178,266
LIABILITIES	
Current liabilities	
Accounts payable	\$ 17,426
Accrued payroll expenses	75,480
Accrued compensated absences	26,150
Other current liabilities	10,124
Total current liabilities	129,180
Non-current liabilities	
Accrued compensated absences	306
Total noncurrent liabilities	306
Total liabilities	129,486
NET ASSETS	
Invested in capital assets, net of related debt	823,956
Unrestricted	1,224,824
Total net assets	2,048,780
Total liabilities and net assets	\$ 2,178,266

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, 2012

Exhibit A-2

Operating revenues	
Charges for services	\$ 376,063
Total operating revenues	376,063
Operating expenses	
Personnel services	964,357
Contractual services	57,505
Utilities	32,842
Repairs and maintenance	81,745
Other supplies and expenses	139,040
Insurance claims and expenses	59,361
Depreciation	88,518
Miscellaneous expenses	48,773
Total operating expenses	1,472,141
Operating income (loss)	(1,096,078)
Non-operating revenues (expenses)	
Operating grants	105,890
Interest income	3,793
Property taxes	769,392
Rental income	13,200
Miscellaneous income	2,593
Total non-operating revenues (expenses)	894,868
Change in net assets	(201,210)
Net assets - beginning of year	2,253,585
Restatement (Note 11)	(3,595)
Net assets - beginning of year, as restated	2,249,990
Total net assets - end of year	\$ 2,048,780

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, 2012

Exhibit A-3

Cash flows from operating activities:	
Cash received from customers	\$ 375,052
Cash payments to employees for services	(915,363)
Cash payments to suppliers for goods and services	<u>(433,535)</u>
Net cash provided (used) by operating activities	<u>(973,846)</u>
Cash flows from noncapital financing activities:	
Operating grants	105,890
Property tax receipts	769,392
Miscellaneous income	2,593
Rental income	13,200
Change in noncurrent accrued compensated absences	<u>(24,717)</u>
Net cash provided (used) by noncapital financing activities	<u>866,358</u>
Cash flows from investing activities:	
Interest on investments	3,793
Purchase of investments	<u>100</u>
Net cash provided (used) by investing activities	<u>3,893</u>
Net increase (decrease) in cash and cash equivalents	(125,268)
Cash and cash equivalents - beginning of year	242,734
Restatement (Note 11)	<u>(3,595)</u>
Cash and cash equivalents - beginning of year, as restated	<u>239,139</u>
Cash and cash equivalents - end of year	<u>\$ 113,871</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (1,096,078)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	88,517
Changes in assets and liabilities	
Customer receivables	(1,011)
Inventory	2,004
Prepaid expenses	(471)
Accounts payable	(15,801)
Accrued payroll expenses	18,195
Other liabilities	4,649
Current accrued compensated absences	<u>26,150</u>
Net cash provided (used) by operating activities	<u>\$ (973,846)</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, 2012

NOTE 1. Summary of Significant Accounting Policies

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

A. Nature of Business

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

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

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

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

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

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

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

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Reporting Entity (continued)

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.

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, 2012

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 fair market 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.

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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.

Property Taxes: The Jal Hospital District receives property taxes from the Treasurer of Lea County. 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, 2012

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.

At June 30, 2012 the carrying amount of the District's deposits was \$120,279. The entirety of the balance was covered by federal depository insurance.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (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. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing accounts at all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From July 21, 2011 to December 31, 2012 accounts held by an official custodian for a government unit are insured as follows:

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2012

NOTE 2. Deposits and Investments (continued)

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts.
- Through December 31, 2012, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

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, 2012, none of the District’s deposits of \$120,279 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, 2012	
Total amount of deposits	\$ 120,279
FDIC Coverage	(120,279)
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	98,738
Over (under) collateralization	\$ 98,738

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, 2012
Petty Cash	\$	300
Deposits		120,279
Reconciling items		(6,708)
Carrying amount	\$	113,871
Included in the following Statement of Net Assets captions:		
Cash and cash equivalents	\$	113,871
Total	\$	113,871

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2012

NOTE 2. Deposits and Investments (continued)

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.

As of June 30, 2012, 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	\$ 984,050
Reserve Contingency Fund	Unrated	Does not earn interest	476
			<u>\$ 984,526</u>

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:

	<u>June 30, 2012</u>
Patient	\$ 213,281
Property Tax Receivable	63,468
Medicare	7,016
State of New Mexico - RPHCA	7,745
	<u>\$ 291,510</u>
Allowance for Uncollectible Accounts (Patient receivable)	<u>(64,029)</u>
	<u>\$ 227,481</u>

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

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2012

NOTE 4. Capital Assets

The following is an analysis of the capital assets:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
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	21,673	-	334,897
Total Capital Asset Being Depreciated	1,460,089	21,673	-	1,481,762
Total	1,463,789	21,673	-	1,485,462
Less Accumulated Depreciation:				
Building and Improvements	336,158	59,448	-	395,606
Equipment	236,830	29,070	-	265,900
	572,988	88,518	-	661,506
Total capital assets, net of depreciation	\$ 890,801	\$ (66,845)		\$ 823,956

Depreciation expense for the year ended June 30, 2012 was \$88,518.

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, 2012. 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, 2012, 2011, and 2010 were \$63,029, \$41,094, and \$35,825 respectively.

New Mexico Public Employees Retirement Act (PERA)

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

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2012

NOTE 6. State Grant

The District received \$105,890 for the year ended June 30, 2012 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.

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, 2012 as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Compensated Absences	\$ 25,023	\$ 32,136	\$ 30,703	\$ 26,456	\$ 26,150

NOTE 9. Concentrations

The District depends on financial resources flowing from, or associated with, both the Federal Government and the State of New Mexico. Because of this dependency, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, Accounting and Financial Reporting for Service Concession Arrangements, effective for periods beginning after December 15, 2011. 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 effects that this pronouncement will have on their financial statements.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2012

NOTE 10. Subsequent Pronouncements

3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The District is analyzing the effects that this pronouncement will have on their financial statements.

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement 65, Items Previously Reported as Assets and Liabilities, effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 11. Restatement

Net assets for the District were restated by (\$3,595). This was due a cash reconciliation discrepancy in the prior year that was not resolved until the current year.

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, 2012

Statement A-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Operating revenues				
Charges for services	\$ 367,000	\$ 367,000	\$ 376,063	\$ 9,063
Total operating revenues	367,000	367,000	376,063	9,063
Operating expenses				
Personnel services	1,035,300	1,035,300	964,357	70,943
Contractual services	60,000	60,000	57,505	2,495
Utilities	35,000	35,000	32,842	2,158
Repairs and maintenance	65,000	65,000	81,745	(16,745)
Other supplies and expenses	100,300	100,300	139,040	(38,740)
Licenses and dues	-	-	-	-
Insurance claims and expenses	75,000	75,000	59,361	15,639
Miscellaneous	66,200	66,200	48,773	17,427
Total operating expenses	1,436,800	1,436,800	1,383,623	53,177
Operating income (loss)	(1,069,800)	(1,069,800)	(1,007,560)	62,240
Non-operating revenues (expenses)				
Operating grants	98,000	98,000	105,890	7,890
Interest income	2,500	2,500	3,793	1,293
Rental income	3,600	3,600	13,200	9,600
Property tax income	600,000	600,000	769,392	169,392
Investment in capital assets	-	-	-	-
Miscellaneous income	-	-	2,593	2,593
Total non-operating revenues (expenses)	704,100	704,100	894,868	190,768
Change in net assets	(365,700)	(365,700)	(112,692)	253,008
Designated cash (budgeted increase in cash)	365,700	365,700	-	365,700
Total net assets, beginning of year	-	-	2,253,585	2,253,585
Restatement (Note 11)	-	-	(3,595)	(3,595)
Total net assets, beginning of year as restated	-	-	2,249,990	2,249,990
Total net assets, end of year	\$ -	\$ -	\$ 2,137,298	\$ 2,140,893
Change in net assets, above			\$ (112,692)	
Adjustments for depreciation			(88,518)	
Change in net assets (Exhibit A-2)			\$ (201,210)	

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, 2012

Schedule I

Deposit Type	Deposits	Investments	Total
	Wells Fargo Bank	NM State Treasurer Local Government Investment Pool	
Checking	\$ 120,279	\$ -	\$ 120,279
New Mexico Grow LGIP	-	984,050	984,050
Reserve Contingency Fund	-	476	476
Total	<u>120,279</u>	<u>984,526</u>	<u>1,104,805</u>
Reconciling items:			
Deposits in transit	10,441	-	10,441
Outstanding checks	<u>(3,733)</u>	<u>-</u>	<u>(3,733)</u>
Total reconciling items	<u>6,708</u>	<u>-</u>	<u>6,708</u>
Total at June 30, 2012	<u>\$ 113,571</u>	<u>\$ 984,526</u>	1,098,097
Add: Petty Cash			300
			<u>\$1,098,397</u>
Deposits and investments per financial statements			
Cash and cash equivalents			113,871
Investments			984,526
Total deposits and investments			<u>\$1,098,397</u>

See accompanying independent auditors' report

STATE OF NEW MEXICO

Schedule II

Jal Hospital District

Schedule of Collateral Pledged by Depository for Public Funds

June 30, 2012

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2012	Name and Location of Safekeeper
Wells Fargo Bank	FNCL 666353	11/1/2032	31391GH66	\$ 25,344	Wells Fargo Bank, California
	FNAD6370	5/1/2040	31418UCG7	<u>73,394</u>	Wells Fargo Bank, California
Total				<u><u>\$ 98,738</u></u>	

See accompanying independent auditors' report

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COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Hector Balderas
New Mexico State Auditor and
The Board of Trustees
Jal Hospital District
Jal, New Mexico

We have audited the financial statements of the business-type activities of Jal Hospital District, as of and for the year ended June 30, 2012. We have also audited the budgetary comparison presented as supplementary information in the accompanying statement A-1 for the year ended June 30, 2012, and have issued our report thereon dated October 8, 2012. 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC.

Internal Control Over Financial Reporting

Management of the Jal Hospital District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Jal Hospital District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jal Hospital District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jal Hospital District's internal control over financial reporting.

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 Jal Hospital District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did identify the deficiency described in the accompanying Schedule of Findings and Responses as FS 2010-1 which we consider 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 deficiencies described in the accompanying Schedule of Findings and Responses as FS 2012-1 and FS 2012-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jal Hospital 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 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 FS

2011-1. Jal Hospital District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Jal Hospital District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within Jal Hospital District, the State Auditor, the New Mexico Department of Finance and Administration, the State Legislature, and applicable federal and state grantors, and is not intended to be and should not be used by anyone other than these parties.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
October 8, 2012

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

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, 2012

Section II – Financial Statement Findings and Responses

FS 2010-1 Segregation of Duties-Material Weakness

Condition

During our testwork, a lack of segregation of duties was noted in the following areas:

- Journal entries are prepared and posted by the same person and are not reviewed
- Bank statements are opened and bank reconciliations are prepared by the same individual. The bank reconciliations are not reviewed
- Checks are prepared and mailed by the same individual

Criteria

Segregation of conflicting duties within accounting functions is a basic internal control that mitigates the risk of significant misstatement.

Effect

Lack of segregation of duties is opportunity for either intentional or unintentional errors or fraud.

Cause

The cause for the lack of segregation of duties is due to the limited number of staff.

Recommendation

We recommend that there be a segregation of duties whenever possible. We recommend board involvement in the review of accounting functions on a regular basis and that other employees be cross-trained on some of the accounting functions.

Views of Responsible Officials and Planned Corrective Actions

Journal entries will be reviewed by another person on staff or by a Board member. Bank statements are now received online and are reviewed by another staff member other than the person who reconciles it. Checks are prepared by the business office person but are signed and reviewed by two other people, one being a Board member. The business office then identifies the invoice with the check number, writes the number on the invoice in red along with the date it was written and is then mailed.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

Section II – Financial Statement Findings and Responses (continued)

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 \$60 out of \$519.85 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 2012 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

All deposits will be made within 24 hours if possible. When the bank is closed for a holiday or the deposit is ready after the bank closes for the weekend all deposits are placed in a bank bag and locked in a secure locked closet. Only two staff members have keys to the cabinet.

STATE OF NEW MEXICO
 Jal Hospital District
 Schedule of Findings and Responses
 June 30, 2012

Section II – Financial Statement Findings and Responses (continued)

FS 2012-1 Lack of Internal Controls over Voided Checks-Significant Deficiency

Condition

During our testwork over cash, we noted several internal control issues including:

- Checks are being voided in QuickBooks without the actual checks being voided
- Supporting documentation for voided checks is not being maintained. Out of 28 voided checks tested, only three had the appropriate documentation.

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.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Good internal control policy dictates that the District shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx.) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

Effect

This results in an increased risk of theft of voided checks and potential for misappropriation of District funds.

Cause

The District does not have the appropriate controls in place over voided checks.

Auditors' Recommendation

We recommend that the District review cash management procedures with the responsible individuals monthly to ensure that all areas of cash have sufficient internal controls, including accounting for all voided checks.

Views of Responsible Officials and Planned Corrective Actions

This has been brought to our attention and in the future the checks will be voided the numbers will not be reused to reconstruct the check and will be stored with the check stub in numerical order.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

Section II – Financial Statement Findings and Responses (continued)

FS 2012-2 Lack of Internal Controls over Access to Servers-Significant Deficiency

Condition

During our testwork IT operations, it was noted that a server containing sensitive medical information and another server containing financial information are located in an unsecured area.

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.

The SAS No. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Effect

Without a well controlled process for granting physical and logical access to servers, unauthorized users may have access and misuse may occur.

Cause

Management feels that since the servers are located in a highly trafficked area, that anyone trying to access the servers without authorization would be noticed.

Auditors' Recommendation

We recommend that the District relocate servers to a locked area of the Clinic, or purchase a locking cabinet to restrict physical access to the servers.

Views of Responsible Officials and Planned Corrective Actions

We will review the area where the servers are located and will search for a vented cover that would make the servers more secure.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

Section II – Financial Statement Findings and Responses (continued)

FS 2012-3 Auditor Prepared Financial Statements

Condition

The financial statements and related disclosures are not being prepared by the District. The District does not have a procedure in place to detect and correct material misstatements in the financial statements.

Criteria

A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosures. The fact that the auditor prepares the financial statements may mean they are correct, but it does not eliminate the control deficiency.

Effect

The District has a control deficiency since there are not sufficient controls over the preparation of financial statements and related disclosures. The risk of material misstatement of the financial statements is increased by the lack of control procedures over the preparation of the District's financial statements.

Cause

District personnel do not have the time and have not been trained in the preparation of financial statements and related disclosures.

Auditors' Recommendation

We recommend that management and personnel receive training over preparation of financial statements and related disclosures under Generally Accepted Accounting Principles, or contract with a consultant to assist with the preparation and implement procedures to detect and correct misstatements.

Views of Responsible Officials and Planned Corrective Actions

Training will be found that allow management and personnel to receive needed training in preparation of financial statements and related disclosures under GAAP. If no training is available a consultant will be recruited.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

Section II – Financial Statement Findings and Responses (continued)

FS 2012-4 Late Audit Report

Condition

The District's 2012 audit report was not submitted by the October 15, 2012.

Criteria

The Jal Hospital District is required to submit their audit report for the year ended June 30, 2012 on or before October 15, 2012 subsequent to the entity's fiscal year end in accordance with Subsection A of 2.2.2.9 of NMAC.

Effect

The District could be affected by a late submission by not catching problems in a timely fashion to correct findings. The financial statements are not available for use by the District in a timely fashion for making financial decisions.

Cause

The Independent Auditors' Report contained incorrect language which resulted in the report being rejected by the Office of the State Auditor.

Auditors' Recommendation

We recommend that management review the audit report before it is submitted so that any mistakes can be detected and corrected in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions

In the future, management will review the audit report so that any mistakes can be detected and corrected before submission.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2012

Section III - Schedule of Prior Year Audit Findings

FS 2010-1 Segregation of Duties	Revised and Repeated
FS 2011-1 Failure to Locate Supporting Documentation for Receipts	Resolved
FS 2011-2 Untimely Medicare Billings	Resolved
FS 2011-Untimely Deposits	Revised and Repeated

STATE OF NEW MEXICO
Jal Hospital District
Other Disclosures
For the Year Ended June 30, 2012

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 October 8, 2012. The following individuals were in attendance.

Jal Hospital District Officials

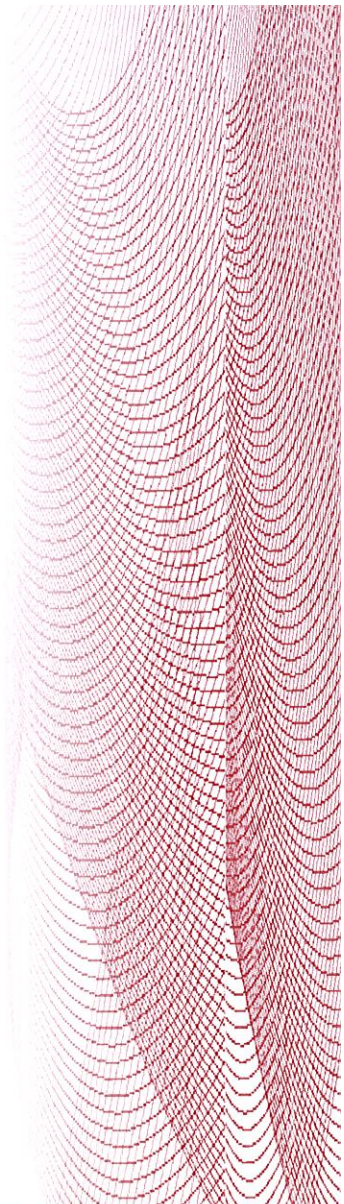
Stephen Aldridge
Carolynn Swain

Chairman
Office Manager

Accounting and Consulting Group, LLP

Bethany Benavides

Senior



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