



**Accounting &
Consulting Group, LLP**
Certified Public Accountants

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***State of New Mexico
Jal Hospital District
Annual Financial Report
June 30, 2014***

STATE OF NEW MEXICO
JAL HOSPITAL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2014

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Jal Hospital District
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 June 30, 2014

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STATE OF NEW MEXICO

Jal Hospital District

Official Roster

June 30, 2014

<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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Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Jal Hospital District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the basic financial statements as listed in the table of contents. We have also audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying Statement A-1 as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 required that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

We were not able to verify balances due to inadequate accounting records relating to the District's compensated absences and related payroll expense accounts as of and for the year ended June 30, 2014. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on compensated absences as of June 30, 2014. The effect on liabilities, net position, and expenses of the business-type activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the possible effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the District for the year ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management’s Discussion and Analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on The District’s financial statements and the budgetary comparison. Supporting Schedules I and II required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supporting Schedules I and II are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014 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* in considering the District’s internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
October 9, 2014

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO

Exhibit A-1

Jal Hospital District
Statement of Net Position
June 30, 2014

Assets	
Current assets	
Cash and cash equivalents	\$ 2,028,335
Investments	736,640
Receivables (net of allowance for doubtful accounts of \$57,376)	559,688
Inventory	7,232
Prepaid expenses	<u>22,216</u>
Total current assets	<u>3,354,111</u>
Noncurrent assets	
Capital assets	1,360,348
Accumulated depreciation	<u>(717,645)</u>
Total noncurrent assets	<u>642,703</u>
Total assets	<u><u>\$ 3,996,814</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 4,419
Accrued payroll expenses	67,314
Accrued compensated absences	25,086
Other current liabilities	<u>8,539</u>
Total current liabilities	<u>105,358</u>
Non-current liabilities	
Accrued compensated absences	<u>9,130</u>
Total noncurrent liabilities	<u>9,130</u>
Total liabilities	<u>114,488</u>
Deferred Inflows of Resources	
Property taxes	<u>1,556</u>
Total deferred inflows of resources	<u>1,556</u>
Net Position	
Net investment in capital assets	642,703
Unrestricted	<u>3,238,067</u>
Total net position	<u>3,880,770</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 3,996,814</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
Jal Hospital District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Exhibit A-2

Operating revenues	
Charges for services	\$ 410,528
Total operating revenues	410,528
Operating expenses	
Personnel services	1,065,283
Contractual services	55,742
Utilities	29,842
Repairs and maintenance	49,326
Other supplies and expenses	109,382
Insurance claims and expenses	67,967
Depreciation	76,759
Miscellaneous expenses	22,341
Total operating expenses	1,476,642
Operating income (loss)	(1,066,114)
Non-operating revenues (expenses)	
Operating grants	262,088
Interest income	5,361
Property taxes	2,242,613
Rental income	13,200
Miscellaneous income	12,310
Total non-operating revenues (expenses)	2,535,572
Change in net position	1,469,458
Net position - beginning of year	2,329,258
Restatement (Note 11)	82,054
Net position - beginning of year, as restated	2,411,312
Total net position - end of year	\$ 3,880,770

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, 2014

Exhibit A-3

Cash flows from operating activities:	
Cash received from customers	\$ 179,504
Cash payments to employees for services	(1,047,735)
Cash payments to suppliers for goods and services	(338,579)
Net cash provided (used) by operating activities	<u>(1,206,810)</u>
Cash flows from noncapital financing activities:	
Operating grants	262,088
Property tax receipts	2,242,613
Miscellaneous income	12,310
Rental income	13,200
Net cash provided (used) by noncapital financing activities	<u>2,530,211</u>
Cash flows from investing activities:	
Interest on investments	5,361
Purchase of investments	(774)
Net cash provided (used) by investing activities	<u>4,587</u>
Net increase (decrease) in cash and cash equivalents	1,327,988
Cash and cash equivalents - beginning of year	<u>700,347</u>
Cash and cash equivalents - end of year	<u>\$ 2,028,335</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (1,066,114)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	76,759
Changes in assets and liabilities	
Customer receivables	(231,024)
Inventory	(1,773)
Prepaid expenses	6,035
Accounts payable	(8,241)
Accrued payroll expenses	554
Other liabilities	3,055
Accrued compensated absences	13,939
Net cash provided (used) by operating activities	<u>\$ (1,206,810)</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, 2014

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.

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Reporting Entity

During the year ended June 30, 2014, the District adopted GASB Statements No. 65 and 66. GASB 65, Items Previously Reported as Assets and Liabilities. This Statement establishes 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. GASB 66, Technical Corrections-2012-an amendment of the GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 and No. 62.

In evaluating how to define the District for financial reporting purposes, management has considered all potential programs and operations of the District. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. 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 the governing board by the District, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its patients, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patients.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the District has no component units, and is not a component unit of any other entity.

C. Measurement Focus and Basis of Accounting

The District's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as set forth or adopted by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), and their predecessors, the National Council on Governmental Accounting ("NCGA") and the Accounting Principles Board ("APB"), respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The District's proprietary (enterprise) fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Property taxes and oil and gas taxes are recognized as revenues in the year for which they are levied. Amounts not considered available for derived tax revenues are reported in the Statement of Net Position as deferred inflows of resources. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e. total assets net of total liabilities) are segregated into net investment in capital assets and unrestricted components.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to patients for services provided. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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*.

D. 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 GAAP. 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 Net Position-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.

E. Assets, Liabilities and Net Position

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 Local Government Investment Pool. Amounts invested with the State Treasurer are readily available to the District when needed and are recorded at fair market value.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Position (continued)

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 which 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	3-20 years

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

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

E. *Assets, Liabilities and Net Position (continued)*

Net Position: For the financial statements, net position is reported in three categories: net investment in capital assets, restricted, and unrestricted:

- **Net investment in capital assets** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – Net position is reported as restricted when constraints placed on net asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – Net position that does not meet the definition of “restricted” and “Net Investment in Capital Assets.”

F. *Revenues*

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2014

NOTE 1. Summary of Significant Accounting Policies (continued)

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant estimates utilized in the preparation of these financial statements include allowances for uncollectible accounts, calculated third-party contractual adjustments, and the estimated lives of capital assets.

H. 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.

I. 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, 2014 the carrying amount of the District's deposits was \$2,028,335.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. 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.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2014

NOTE 2. Deposits and Investments (continued)

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, 2013, \$1,787,100 of the District’s deposits of \$2,037,100 was exposed to custodial credit risk. \$920,000 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the District’s name, and \$867,100 was uninsured and uncollateralized.

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states the types of collateral allowed is limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. All depositories had collateral exceeding the amount required by law. 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.

	<u>Wells Fargo Bank, N.A.</u>
Year ended June 30, 2014	
Total amount of deposits	\$2,037,100
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	<u>1,787,100</u>
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the District's name	<u>920,000</u>
Uninsured and uncollateralized	<u><u>\$ 867,100</u></u>
Collateral requirement (50% of uninsured public funds)	\$ 893,550
Pledged securities	<u>920,000</u>
Over (under) collateralization	<u><u>\$ 26,450</u></u>

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2014

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, 2014
Petty Cash	\$ 1,579
Deposits	2,037,100
Reconciling items	(10,344)
Carrying amount	\$ 2,028,335

Included in the following Statement of
 Net position captions:

Cash and cash equivalents	\$ 2,028,335
Total	\$ 2,028,335

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, 2014, the District had the following investments:

Investments	Rated	Weighted Average Maturity (days)	Fair Value
<i>New MexiGROW</i> LGIP	AAAm	48.6 day WAM(R); 116.2 day WAM(F)	\$ 736,164
Reserve Contingency Fund	Unrated	Does not earn interest	476
			\$ 736,640

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.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2014

NOTE 3. Accounts Receivable

The following is a summary of the District's accounts receivable at year end:

	<u>June 30, 2014</u>
Patient	\$ 158,000
Property Tax Receivable	403,487
Medicare	47,910
State of New Mexico - RPHCA	7,667
	617,064
Allowance for Uncollectible Accounts (Patient receivable)	(57,376)
	<u>\$ 559,688</u>

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

NOTE 4. Capital Assets

The following summarizes changes in capital assets activity during fiscal year 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Restatement</u>	<u>Restated Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:						
Land	\$ 3,700	\$ -	\$ 3,700	\$ -	\$ -	\$ 3,700
Capital assets, being depreciated:						
Building and Improvements	1,146,865	(19,179)	1,127,686	-	-	1,127,686
Equipment	333,118	(117,061)	216,057	-	-	216,057
Total capital asset being depreciated	1,479,983	(136,240)	1,343,743	-	-	1,343,743
Total	1,483,683	(136,240)	1,347,443	-	-	1,347,443
Less accumulated depreciation:						
Building and Improvements	455,056	(13,412)	441,644	56,842	-	498,486
Equipment	288,863	(102,526)	186,337	19,917	-	206,254
	743,919	(115,938)	627,981	76,759	-	704,740
Total capital assets, net of depreciation	\$ 739,764	\$ (20,302)	\$ 719,462	\$ (76,759)	\$ -	\$ 642,703

Depreciation expense for the year ended June 30, 2014 was \$76,759.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2014

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, 2014. 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, 2014, 2013, and 2012 were \$62,775, \$69,940, and \$63,029 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.

NOTE 6. State Grant

The District received \$262,088 for the year ended June 30, 2014 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.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2014

NOTE 8. Compensated Absences

The District has a liability for accrued vacation for the year ended June 30, 2014 as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Compensated Absences	\$ 20,277	\$ 55,989	\$ 42,050	\$ 34,216	\$ 25,086

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.

NOTE 10. Subsequent Pronouncements

In June 2012, GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statements No. 27, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2015. The District is still evaluating how this reporting standard will affect the reporting entity.

In January 2013, GASB GASB Statement No. 69 Government Combinations and Disposals of Government Operations, Effective Date: The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The District is still evaluating how this reporting standard will affect the reporting entity.

In April 2013, GASB Statement No 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees, Effective Date: The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. The District is still evaluating how this reporting standard will affect the reporting entity.

In November 2013, GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement 68. The District is still evaluating how this reporting standard will affect the reporting entity.

NOTE 11. Restatement

Net assets for the District were restated by \$82,054. Capital assets were restated by (\$20,302) due to the removal of assets under the capitalization threshold being included on the District’s listing. Accounts receivable was restated by \$102,356 due to oil and gas tax distributions not being fully accrued in the prior year.

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Statement A-1

Jal Hospital District

Statement of Revenues, Expenses and Changes in Net Position

Budget (GAAP Basis) and Actual

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Operating revenues				
Charges for services	\$ 414,500	\$ 414,500	\$ 410,528	\$ (3,972)
Total operating revenues	414,500	414,500	410,528	(3,972)
Operating expenses				
Personnel services	1,050,104	1,050,104	1,065,283	(15,179)
Contractual services	79,000	79,000	55,742	23,258
Utilities	38,000	38,000	29,842	8,158
Repairs and maintenance	65,000	65,000	49,326	15,674
Other supplies and expenses	175,000	175,000	109,382	65,618
Insurance claims and expenses	75,000	75,000	67,967	7,033
Miscellaneous	59,500	59,500	22,341	37,159
Total operating expenses	1,541,604	1,541,604	1,399,883	141,721
Operating income (loss)	(1,127,104)	(1,127,104)	(989,355)	137,749
Non-operating revenues (expenses)				
Operating grants	98,000	98,000	262,088	164,088
Interest income	3,000	3,000	5,361	2,361
Rental income	14,400	14,400	13,200	(1,200)
Property tax income	800,000	800,000	2,242,613	1,442,613
Miscellaneous income	3,000	3,000	12,310	9,310
Total non-operating revenues (expenses)	918,400	918,400	2,535,572	1,617,172
Change in net position	(208,704)	(208,704)	1,546,217	1,754,921
Designated cash (budgeted increase in cash)	365,700	365,700	-	365,700
Total net position, beginning of year	-	-	2,048,780	2,048,780
Restatement (Note 11)	-	-	82,054	82,054
Total net position, beginning of year as restated			2,130,834	2,130,834
Total net position, end of year	\$ -	\$ -	3,677,051	\$ 3,438,001
Change in net position, above			1,546,217	
Adjustments for depreciation			(76,759)	
Change in net position (Exhibit A-2)			\$ 1,469,458	

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, 2014

Schedule I

Deposit Type	Deposits	Investments	Total
	Wells Fargo Bank, N.A.	NM State Treasurer Local Government Investment Pool	
Checking- noninterest bearing	\$ 2,037,100	\$ -	\$ 2,037,100
New Mexico LGIP	-	736,164	736,164
Reserve Contingency Fund	-	476	476
Total	<u>2,037,100</u>	<u>736,640</u>	<u>2,773,740</u>
Reconciling items:			
Deposits in transit	2,444	-	2,444
Outstanding checks	(12,788)	-	(12,788)
Total reconciling items	<u>(10,344)</u>	<u>-</u>	<u>(10,344)</u>
Total at June 30, 2014	<u>\$ 2,026,756</u>	<u>\$ 736,640</u>	2,763,396
Add: Petty cash			<u>1,579</u>
			<u>\$ 2,764,975</u>
Deposits and investments per financial statements			
Cash and cash equivalents			2,028,335
Investments			736,640
Total deposits and investments			<u>\$ 2,764,975</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, 2014

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value at June 30, 2014</u>	<u>Name and Location of Safekeeper</u>
Wells Fargo Bank					
	FN A16900 3.000%	10/1/2026	3138ALU21	\$ 36,751	Federal Reserve Bank
	FN 666353 6.000%	11/1/2032	31391GH66	11,120	Federal Reserve Bank
	FN AD6370 4.500%	5/1/2040	31418UCG7	66,854	Federal Reserve Bank
	FN AJ4145 4.000%	11/1/2041	3138AVTB1	20,181	Federal Reserve Bank
	FN AK6147 3.500%	3/1/2042	3138EAZM2	464,874	Federal Reserve Bank
	FN AB4742 3.000%	3/1/2042	31417BHU4	3,945	Federal Reserve Bank
	FN AK4303 3.500%	4/1/2042	3138E8X98	4,257	Federal Reserve Bank
	FN AR2458 3.000%	12/1/2042	3138NYWU5	87,268	Federal Reserve Bank
	FN AR3856 3.000%	2/1/2043	3138W1JA6	9,189	Federal Reserve Bank
	FN AR9199 3.000%	3/1/2043	3138W7GH1	32,334	Federal Reserve Bank
	FN AT2015 3.000%	4/1/2043	3138WPGZ1	4,649	Federal Reserve Bank
	FN AS0416 4.000%	9/1/2043	3138W9PA2	76,265	Federal Reserve Bank
	FN AT2722 3.000%	5/1/2043	3138WQAY8	61,212	Federal Reserve Bank
	FN AL0093 3.000%	4/1/2046	3138EGC77	41,101	Federal Reserve Bank
				\$ 920,000	
Total				\$ 920,000	

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Jal Hospital District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and the budgetary comparison presented as supplementary information in the accompanying statement A-1 for the year ended June 30, 2014, and have issued our report thereon dated October 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered Jal Hospital District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes 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. Accordingly we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items FS 2010-001, FS 2014-001, FS 2014-002, and FS 2014-003.

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 to be significant deficiencies as items FS 2012-001, FS 2012-002, and FS 2014-007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items FS 2014-004, FS 2014-005, FS 2014-006, and FS 2014-008.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
October 9, 2014

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2014

Section I – Summary of Audit Results

Financial Statements:

- | | |
|--|-----------|
| 1. Type of auditors' report issued | Qualified |
| 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 |

Section II – Financial Statement Findings and Responses

FS 2010-001 Segregation of Duties (Material Weakness) (Revised and Repeated)

Condition

The District does not have a comprehensive documented internal control structure to ensure effective design, operation, and oversight. There is inadequate segregation of duties related to independent review.

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 potential material weakness in internal control.

Effect

Adequate controls are not in place to prevent or detect errors or fraud resulting in misstatements of accounting information.

Cause

Management did not have a policy in place for an independent review process.

Recommendation

We recommend that the District work with the Board of Directors as well as other staff to create opportunities for an independent review process to help mitigate the risk for errors or fraud.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees and Clinic staff will work together and form a policy that will allow for an independent review process.

Section II – Financial Statement Findings and Responses (continued)

FS 2012-001 Lack of Internal Controls over Voided Checks (Significant Deficiency) (Revised and Repeated)

Condition

During testwork over voided checks and bank reconciliations, we noted several internal control issues including:

- Out of 39 voided checks tested, 13 checks were not voided correctly
 - Eleven did not have an original check maintained at the District.
 - Two checks were recorded twice in QuickBooks for different names and amounts. The original amount that should have been voided was not properly voided in the system nor was the new check number recorded in the system.
 - Four checks totaling \$4,440.87 were not recorded and properly voided in the QuickBooks system. Two of these checks are the duplicates mentioned above.
 - One check in the amount of \$395 was marked void on the original check, but it was an online echeck payment that cleared the bank. This was not truly a voided check.
- During review of bank reconciliations, it was noted that three items totaling a net \$317.07 have been outstanding for more than a year but have not been voided in the system.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that management is responsible for 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

When sufficient controls over voiding the checks are not designed, implemented and operating effectively, an entity's ability to prevent or detect fraud or mistakes is limited.

Cause

Checks are not being voided in the accounting system, and no policy is in place to void checks after a certain period of time has passed.

Auditors' Recommendation

The District should ensure that when a check must be physically voided, it is also voided within the accounting system. This will ensure that a record is left of the check being voided and not appear that the check did not exist. The District should establish a policy to void checks after a certain period of time, not to exceed one year from the date the check was written.

Views of Responsible Officials and Planned Corrective Actions

A policy will be put in place to follow when voiding checks in QuickBooks. The District will work to attempt to clear the old outstanding items so that they do not reflect on prior period totals.

Section II – Financial Statement Findings and Responses (continued)

FS 2012-002 Lack of Internal Controls over Access to Servers (Significant Deficiency) (Revised and Repeated)

Condition

During testwork over 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 has been unable to move the server without creating a major expenditure for the District.

Auditors' Recommendation

We recommend that the District create additional walls with a locked door to protect the server from unauthorized individuals.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees will work with ITworks Company from Hobbs that assists the District's facility with IT problems in an attempt to resolve this issue. Space is very limited and the entire building has been wired to this area.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-001 Deficiencies in Internal Control Structure Design, Operation, and Oversight (Material Weakness)

Condition

The District does not have a comprehensive documented internal control structure. We noted the following areas in which the District does not have sufficient key internal controls in place.

- It was noted when reviewing the processes over cash receipts, cash disbursements, and payroll that there is a lack of internal controls over written approval for transactions.
- There is no independent review for write-offs of customer accounts, preparation and mailing of checks, processing of payroll, bank reconciliations, and journal entries.
- Material journal entries were needed for accounts receivable.
- During receipts testwork, it was noted in five out of five samples that the deposit slip did not have a written signature of the preparer.
- During disbursements testwork, it was noted in five out of five samples that supporting documentation for checks was not independently reviewed prior to signing of the checks.
- During payroll testwork, it was noted in five out of five samples that time sheets and payroll vouchers are not being signed off on by the responsible party prior to processing the payroll.
- Board members have not been certifying the accuracy of the board minutes by providing a signature and a date for each one approved.

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

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause

Management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 115 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation

The District should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process by assisting with independent review.

Views of Responsible Officials and Planned Corrective Action

The Board of Trustees and the staff will work together to resolve the above mentioned issues.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-002 Capital Asset Balance Discrepancies (Material Weakness)

Condition

During testwork for capital assets, the following issues were noted:

- Several assets had prior year information changed. QuickBooks information was verified for the assets with different acquisition dates and purchase prices. The asset with a different life was assessed and determined to be the one on the prior year listing.
 - One asset found in auditor testwork in the prior year was not added to the current listing for a value of \$6,477.29.
 - Two assets had missing acquisition dates.
 - Two assets were disposed in the prior year that were not taken off the listing. The value of these assets at the time of disposal was \$0.
 - Four assets totaling \$7,643.44 were added to the listing that were not on the prior year. Three of these assets totaling \$2,642.44 were below the capitalization threshold and were not included in the final list. The fourth asset was purchased in 1989 and had not been on the capital asset listing previously. This asset totaled \$5,001 and was added to the current asset list.
 - Eight assets had beginning depreciation that did not match the prior year ending. The differences totaled \$652.52.
 - Two assets had different acquisition dates.
 - One asset had a different asset life.
 - Two assets had different purchase prices. The differences in price totaled \$1,035.83.
- Assets below the capitalization thresholds were incorrectly included on the capital asset listing that needed to be restated in the current year. The value of this restatement totaled \$21,847.81.
- Assets above the capitalization thresholds were incorrectly excluded on the capital asset listing that needed to be added back on to the list. The value of these assets totaled \$654.74.
- Beginning depreciation on the majority of the capital assets had to be recalculated and adjusted due to incorrect amounts being reported. The total value of this adjustment was \$1,545.
- Depreciation was not calculated correctly for the current year on some of the assets. The total difference was \$100,213.19.

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

The capital asset listing and depreciation schedule was not accurate prior to auditors' adjustments.

Cause

The District does not have a system or internal control structure that will accurately track capital assets including depreciation for all assets.

Auditors' Recommendation

We recommend that the District implement procedures to ensure that all capital assets are accounted for in the inventory listing.

Views of Responsible Officials and Planned Corrective Actions

Jal Hospital District now has a corrected asset listing and will use it going forward in upcoming years.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-003 Unsupported Compensated Absences Balances (Material Weakness)

Condition

During compensated absences testwork, the following issues were noted:

- The District was unable to provide the auditors with an accurate compensated absences listing.
- The District was unable to provide the auditors with vacation and sick leave records for the first half of the fiscal year.
- The District had unsupported adjustments to some of the beginning leave balances that did not tie to the prior year's ending balances.
- Total vacation hours used per QuickBooks were incorrectly recorded for salaried employees.
- Vacation hours used per QuickBooks were unable to be vouched to the physical vacation and sick leave records maintained by management.
- Management did not update the physical vacation and sick leave record for total number of hours allowed after employee reached new threshold.

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.

Per section 6-6-3 NMSA 1978, every local public body shall:

- Keep all the books, records and account in their respective offices in the form prescribed by the local government division;
- Make all reports as may be required by the local government division; and
- Conform to the rules and regulations adopted by the local government division.

Effect

Due to the high salaries of certain employees at the District, incorrect leave balances could cause the financial statements to be materially misstated. If correct records are not kept, employees could take more vacation hours than they are allotted, causing them to be in violation of the District's policies.

Cause

For the fiscal year 2014, management of the District did not keep accurate records of vacation hours accrued and used.

Auditors' Recommendation

The auditor's recommend that each time an employee takes vacation or sick leave, management should have the employee initial and date the vacation and sick leave records verifying that hours used recorded by management are hours that the employee actually used and are included in records kept by management. In addition, management should maintain information for several years to provide a reference as needed to keep accurate records each year.

Views of Responsible Officials and Planned Corrective Action

The District will implement a policy to correct the above mentioned finding. All vacation or sick leave used will be initialed by the employee and the supervisor.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-004 Travel and Per Diem (Other)

Condition

During testwork regarding compliance with the Per Diem and Mileage Act, the following issues for the eight items tested were noted:

- In two instances, there was a lack of supporting documentation. Receipts could not be found to support the travel expenditures. These expenditures totaled \$54.88.
- In one instance, there was no written approval from the Board for the employee to be reimbursed for actual expenses in lieu of per diem rates. The total amount of this expenditure was for \$1,360.54.

Criteria

Auditing Standards state that the 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 accounting policies require that the City be able to produce documentation of contracts.

The Per Diem and Mileage Act, Section 10-8-1 to 10-8-8, NMSA 1978 documents the requirements required by the Act. Such requirements include:

- 1) With prior written approval of the secretary or the secretary's designee or the local public body, a nonsalaried public officer of a state agency or local public body, a salaried public officer of a state agency or local public body, or a salaried employee of a state agency or local public body is entitled to per diem expenses under this subsection and shall receive:
 - a. Reimbursement for actual expenses for lodging; and
 - b. Reimbursement for actual expenses for meals not to exceed \$30.00 per day for in-state travel and \$45.00 per day for out of state travel

Effect

The District is at risk of being fined and/or otherwise penalized for not complying with government regulations and the District is reimbursing more travel expense than is allowed.

Cause

The District was not in compliance with the Mileage and Per Diem Act.

Auditors' Recommendation

We recommend the District implement a procedure to review the travel and per diem expenditures prior to payment and ensure all reimbursements are in compliance with State Statutes and the District's policy.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees will adopt a policy to allow for all employees to be reimbursed for actual expenditures for continuing education and travel.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-005 Noncompliance with the Procurement Code (Other)

Condition

During testwork regarding compliance with the New Mexico Procurement Code, the District provided bid documents for one proposal that included several projects but failed to maintain sufficient records to support the assertion that management complied with the required level of documentation for procurement. The following issues were noted:

- A formal request for proposal was not prepared and distributed that documented the specifications of the project as well as timelines, weights for evaluation, preferences given to certain individuals/entities, etc.
- Written notice was not provided to the awarded bidders timely.
- Campaign Contribution Disclosure Forms were not filled out and signed by each responsible party.
- All communication with the potential bidders was done orally and no written documentation was kept.

Criteria

Auditing Standards state that the 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 accounting policies require that the City be able to produce documentation of contracts.

The New Mexico Procurement Code, Section 13-1-1 to 13-1-199, NMSA 1978 documents the requirements required by the Purchasing Act. Such requirements include:

- 2) For single purchases in excess of \$60,000 for tangible property or in excess of \$60,000 for services, sealed, written bids must be solicited.
- 3) The invitation for bid includes the specifications for the services; construction or items of tangible personal property to be procured; all contractual terms and conditions applicable to the procurement; the locations where bids are to be received; and the date, time, and place of the bid opening.
- 4) A five percent preference is given to a bidder growing, producing, processing, manufacturing, or is a resident dealer for goods and services in the State of New Mexico.
- 5) The bid is awarded to the lowest bidder, except in the instance that one or more bidders have been evaluated as having a higher score than the lowest bidder.
- 6) Written notice is provided to the awarded bidder with reasonable promptness.
- 7) A Campaign Contribution Disclosure Form is solicited from prospective contractors and included with the awarded proposal.

Effect

Without appropriate supporting documentation, the District has no assurance that all revenues and disbursements have been properly authorized and disbursed in accordance with applicable grant agreements and follow good accounting procurement practices. When files are disorganized, this provides for the possibility that noncompliance with the Procurement Code could go unnoticed by management.

Cause

The District did not comply with the procurement code and ensure that all documentation was maintained in the proposal file.

Auditors' Recommendation

All documentation should be kept in the file including requests that include preferences will be given to certain entities, newspaper clippings showing the date of circulation and who is circulating the advertisement, documentation of the official opening of bids/proposals, evaluation sheets completed by the responsible individuals, and documented written notice of awarding the bidder.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees will have a written evaluation sheet for all future proposal requests. All above findings will be met in the future as the District procures items or services.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-006 Allowance for Doubtful Accounts Calculation (Other)

Condition

During the current year in the accounts receivable testwork, it was noted that the estimation for the allowance for uncollectible accounts was unadjusted from the prior year ending and an analysis was not done in the current year to determine if the amount was reasonable. Based on client documentation, the average of historical data over the last four years estimates a 36.71% allowance.

Criteria

Statement on Auditing Standards No. 57 documents that management is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. Estimates should be presented in conformity with applicable accounting standards and be consistent from year to year.

Effect

Because the allowance is not being calculated in a consistent manner, management is unsure how much of accounts receivables are expected to be reasonably collected from year to year.

Cause

For the current year, management did not estimate the allowance in a reasonable manner.

Auditors' Recommendations

The District should ensure that historical calculations are being maintained in order to better estimate the percentage that is expected to be uncollectible. This calculation should be used consistently from year to year until a determination is made to reevaluate.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees will see that the financial department in the future allows for the amount in doubtful accounts.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-007 Credit Card Expenditures (Significant Deficiency)

Condition

During the credit card disbursement testwork, it was noted in five instances out of five totaling \$427.79 where the District did not have supporting documentation attached to the expenditure file, and in all five instances, the documentation could not be located. It was also noted in one out of five instances where the expenditure was recorded in the wrong account.

Criteria

NMSA 1978, Section 6-5-2, requires local public bodies to implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect

Having lack of documentation for purchases made increases the risk for misappropriation, budget overspending, or fraudulent activities. Recording of transactions in the wrong account increases the risk of expenditures being misstated.

Cause

Proper care was not taken to ensure that all supporting documentation of credit card expenditures was properly kept with the record of the expenditure.

Auditor's Recommendation

It is our recommendation that management take more care in ensuring that all invoices, receipts, etc. are kept as documentation to support all credit card expenditures.

View of Responsible Officials and Planned Corrective Actions:

The financial department will adopt a policy that allows for supporting documentation to be kept in a current file for the credit card use.

Section II – Financial Statement Findings and Responses (continued)

FS 2014-008 Late IPA Recommendation Form (Other)

Condition

The District did not submit its completed and signed IPA Recommendation Form for Audits to the State Auditor by the deadline.

Criteria

The New Mexico Administrative Code (NMAC) 2.2.2.8 paragraph 6 of subsection G states that “the agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadline.” For special hospital districts, this deadline date is April 15th.

Effect

Recommendation and related contracts that are not received by the State Auditor is a violation of the New Mexico Administrative Code.

Cause

The District did not submit their IPA Recommendation directly to the State Auditor, which resulted in it being late.

Auditors’ Recommendation

We recommend that the District ensure all reports are filed timely with the State Auditor as well as complying with all New Mexico State Statutes.

Views of Responsible Officials and Planned Corrective Actions

The Board of Trustees will in the future submit all recommendations directly to the State Auditor by the deadline.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2014

Section III - Schedule of Prior Year Audit Findings

FS 2010-001 Segregation of Duties	Revised and Repeated
FS 2011-003 Untimely Deposits	Resolved
FS 2012-001 Lack of Internal Controls over Voided Checks	Revised and Repeated
FS 2012-002 Lack of Internal Controls over Access to Servers	Revised and Repeated
FS 2012-003 Auditor Prepared Financial Statements	Resolved

STATE OF NEW MEXICO

Jal Hospital District

Other Disclosures

June 30, 2014

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Accounting and Consulting, Group, LLP prepared the GAAP-basis financial statements and footnotes of Jal Hospital District from the original books and records provided to them by the management of the District. The responsibility for the financial statements remains with the District.

B. EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014. The following individuals were in attendance.

Jal Hospital District Officials

Stephen Aldridge

Carolynn Swain

Jackie Ford

Board Chairman

Office Manager

Insurance Clerk

Accounting and Consulting Group, LLP

Jessica Huff, CPA

Senior Accountant