

*State of New Mexico  
Jal Hospital District*

*Annual Financial Report  
June 30, 2015*



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



## **INTRODUCTORY SECTION**

STATE OF NEW MEXICO

Jal Hospital District

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June 30, 2015

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**STATE OF NEW MEXICO**

Jal Hospital District

Official Roster

June 30, 2015

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

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Timothy Keller  
New Mexico State Auditor and  
The Board of Trustees  
Jal Hospital District  
Jal, New Mexico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund and the budgetary comparison for the general fund of Jal Hospital District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 statements 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 require that we plan and perform the audit to obtain 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 auditors' 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Notes 1 and 15, the presentation of the financial statements of the District have significantly changed. This change is a result of the operations of the District conforming to a governmental funds presentation (previously a proprietary fund presentation) as required by accounting principles generally accepted in the United States of America. The District presents government-wide financial statements, as well as fund financial statement presentations. The changes of accounting policies are outlined in Note 1. The reconciliation of beginning equity on the various bases of accounting has been presented in Note 15. Overall, equity of the District has not changed from the amounts presented in the fiscal year ended 2014 financial statements. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 financial statements and budgetary comparisons that collectively comprise the District's basic financial statements. The introductory section and the additional schedules listed as Schedules I through III in the table of contents are required by Section 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 auditing standards generally accepted in the United States of America. In our opinion, the additional schedules are fairly stated, in all material respects in relation to the basic financial statements as a whole.

The introductory section and Schedule III 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 5, 2015 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 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 5, 2015

**BASIC  
FINANCIAL STATEMENTS**

## STATE OF NEW MEXICO

Jal Hospital District  
Statement of Net Position  
June 30, 2015

Exhibit A-1

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 3,665,657
Investments	737,339
Receivables, net of allowance of \$30,823	487,728
Inventory	10,188
Prepaid expenses	<u>22,031</u>
Total current assets	<u>4,922,943</u>
Noncurrent assets	
Capital assets	1,511,004
Less: accumulated depreciation	<u>(781,796)</u>
Total noncurrent assets	<u>729,208</u>
Total assets	<u><u>\$ 5,652,151</u></u>
Liabilities and net position	
Liabilities	
Current liabilities	
Accounts payable	\$ 6,337
Accrued payroll	66,499
Current portion of accrued compensated absences	7,392
Other current liabilities	<u>2,273</u>
Total current liabilities	<u>82,501</u>
Total liabilities	<u>82,501</u>
Net position	
Net investment in capital assets	729,208
Unrestricted	<u>4,840,442</u>
Total net position	<u>5,569,650</u>
Total liabilities and net position	<u><u>\$ 5,652,151</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Jal Hospital District  
Statement of Activities  
June 30, 2015

Exhibit A-2

	<u>Governmental Activities</u>
Expenses	
General government	\$ 1,653,141
Total expenses	<u>1,653,141</u>
Program Revenues	
Charges for services	377,556
Operating grants and contributions	<u>104,800</u>
Total program revenues	<u>482,356</u>
Net program (expense)	<u>(1,170,785)</u>
General Revenues	
Property taxes, levied for general purposes	160,612
Oil and gas taxes	2,646,060
Investment income	7,602
Miscellenaous income	<u>16,293</u>
Total general revenues	<u>2,830,567</u>
Change in net position	<u>1,659,782</u>
Net position- beginning of year	3,880,770
Restatement (Note 7)	<u>29,098</u>
Net position- beginning of year, restated	<u>3,909,868</u>
Net position- end of year	<u><u>\$ 5,569,650</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Jal Hospital District  
 Balance Sheet  
 Governmental Fund  
 June 30, 2015

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 3,665,657
Investments	737,339
Receivables, net of allowance of \$30,823	487,728
Inventory	10,188
Prepaid expenses	<u>22,031</u>
Total assets	<u>\$ 4,922,943</u>
Liabilities, deferred inflows of resources, and fund balances	
Liabilities	
Accounts payable	\$ 6,337
Accrued payroll	66,499
Other current liabilities	<u>2,273</u>
Total liabilities	<u>75,109</u>
Deferred inflows of resources	
Property taxes	<u>67,747</u>
Total deferred inflows of resources	<u>67,747</u>
Fund balances	
Spendable	
Unassigned	<u>4,780,087</u>
Total fund balances	<u>4,780,087</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,922,943</u>

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Governmental Fund  
 Reconciliation of the Balance Sheet to the Statement of Net Position  
 June 30, 2015

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances- total governmental funds	\$	4,780,087
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		729,208
Delinquent property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred inflows of resources in the fund financial statements, but are considered revenue in the Statement of Activities		67,747
Certain liabilities, including loans payable and current and long-term portions of accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued compensated absences not due and payable at year end		<u>(7,392)</u>
Total net position of governmental activities	\$	<u><u>5,569,650</u></u>

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Statement of Revenues, Expenditures, and Change in Fund Balance  
 Governmental Fund  
 For the Year Ended June 30, 2015

	General Fund
Revenues	
Taxes	
Property	\$ 92,865
Intergovernmental income	
State operating grants	104,800
Charges for services	377,556
Oil and gas income	2,646,060
Investment income	7,602
Miscellaneous	16,293
	3,245,176
Total revenues	3,245,176
Expenditures	
Current	
General government	1,585,160
Capital outlay	150,656
	1,735,816
Total expenditures	1,735,816
Net change in fund balances	1,509,360
Fund balances- beginning of year	3,270,727
	4,780,087
Fund balance- end of year	\$ 4,780,087



STATE OF NEW MEXICO

Jal Hospital District

Reconciliation of the Statement of Revenues, Expenditures, and Change  
in Fund Balance of the Governmental Fund to the Statement of Activities  
For the Year Ended June 30, 2015

Exhibit B-2

Page 2 of 2

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Net change in fund balances- total governmental funds	\$ 1,509,360
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	150,656
Depreciation expense	(69,156)
Reclassification of capital assets	5,005
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds:	
Increase in deferred property taxes	66,191
Expenditures in the Statement of Activities that do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Increase in accrued compensated absences	<u>(2,274)</u>
Change in net position of governmental activities	<u>\$ 1,659,782</u>

## STATE OF NEW MEXICO

Exhibit C-1

Jal Hospital District  
Statement of Revenues, Expenditures, and Change in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 1,200,000	\$ 1,200,000	92,865	\$ (1,107,135)
Intergovernmental income				
State operating grants	104,800	104,800	104,800	-
Charges for services	414,500	414,500	377,556	(36,944)
Oil and gas income	-	-	2,646,060	2,646,060
Rental income	14,400	14,400	12,600	(1,800)
Investment income	5,000	5,000	7,602	2,602
Miscellaneous income	3,000	3,000	3,693	693
Total revenues	<u>1,741,700</u>	<u>1,741,700</u>	<u>3,245,176</u>	<u>1,503,476</u>
Expenditures				
Current				
General government	1,745,729	1,745,729	1,585,160	160,569
Capital outlay	-	-	150,656	(150,656)
Total expenditures	<u>1,745,729</u>	<u>1,745,729</u>	<u>1,735,816</u>	<u>9,913</u>
Excess (deficiency) of revenues over expenditures	<u>(4,029)</u>	<u>(4,029)</u>	<u>1,509,360</u>	<u>1,513,389</u>
Other Financing Sources (Uses)				
Designated cash (budgeted increase in cash)	4,029	4,029	-	(4,029)
Total other financing sources (uses)	<u>4,029</u>	<u>4,029</u>	<u>-</u>	<u>(4,029)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>1,509,360</u>	<u>1,509,360</u>
Fund balances- beginning of year	-	-	3,677,051	3,677,051
Restatement (Note 7)	-	-	(406,324)	(406,324)
Fund balances- beginning of year, as restated	<u>-</u>	<u>-</u>	<u>3,270,727</u>	<u>3,270,727</u>
Fund balances- end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,780,087</u>	<u>\$ 4,780,087</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, 2015

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

The Jal Hospital District (the “District”) is an entity under the laws of the State of New Mexico and is located in Lea County, New Mexico. The District provides medical and dental 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, New Mexico.

The District assumed operations of the hospital in January of 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 Jal 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 District’s Board of Trustees was completed during the 1983-1984 fiscal year. Also during this time, Lea County contributed various assets to the District 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. Three years later on October 31, 1986, the District discontinued all services including outpatient clinic services. The District continued to collect accounts receivable, dispose of inventories, and settle debts until April of 1988 when an agreement was reached with Lea Regional Medical Center of Hobbs, New Mexico, to provide, under contract, services of a physician and nurse for the sum of \$175,000 per year. The District then opened the Jal Clinic located at 101 E. Panther for outpatient services and all administrative staff was provided by the District. The Board of Trustees continued as the governing body.

On June 30, 1990 the contract with Lea Regional Medical Center was mutually discontinued and a physician and nurse were hired as employees of the District. During the 1989-1990 fiscal year, the hospital building, located on W. Kansas Avenue, was sold to the City of Jal for the sum of \$1.00. Currently, the District operates a Rural Health Care Clinic in a manpower shortage area.

This summary of significant accounting policies of the District is presented to assist in the understanding of District’s financial statements. The financial statements and notes are the representation of District’s management who is responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

During the year ended June 30, 2015, the District adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (“GASB 68”), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (“GASB 71”). These two Statements are required to be implemented at the same time. Both Statements currently do not have any effect on the District as there are no employees that participate in the State of New Mexico Public Employees Retirement Act.

During the year ended June 30, 2015, the District also adopted GASB Statements No. 69 and 70. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”) establishes accounting and financial reporting standards related to government combinations (including mergers, acquisitions, and transfers of operations), and disposals of government operations. GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”) improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Neither of these pronouncements have materially impacted the District’s financial statements.

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

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

**A. Financial Reporting Entity**

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial 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. Blended component units, although legally separate entities, are in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 government and/or its citizens.

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 government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the District has no component units required to be reported under GASB Statements No. 14, No. 39, or No. 61.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (also known as *proprietary or enterprise funds*), which rely to a significant extent on fees and charges for support.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis by column, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

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

***B. Government-wide and fund financial statements (continued)***

other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental fund.

***C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as set forth or adopted by 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.

Certain prior year balances have been reclassified to conform to the June 30, 2015 financial statement presentation. Additionally, certain terminology has been changed to conform to other changes discussed in Note 15.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, net of estimated refunds, are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the District's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of District facilities, etc., (b) program-specific operating grants, which include revenues received from state and federal sources such as the State Department of Health grant to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The District has agreements with third-party payers (Medicare and Medicaid) that provide for payments to the District at amounts different from its established rates. The outpatient care services rendered to the Medicare and Medicaid program beneficiaries are paid at determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

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

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The District does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the requirements of GASB Statement No. 34, the District is required to present certain of its governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following, which include funds that were not required to be presented as major but were at the discretion of management:

The District reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**D. Assets, Liabilities, and Net Position or Fund Balance**

**Deposits and Investments:** The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the District are reported at fair market value, which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Income, gains, and losses on investments are reported as a component of investment income on the Statement of Activities.

**Receivables and Payables:** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied. Property taxes are considered to be 100.00% collectible.

Property taxes are levied on November 1st based on the assessed value of property as listed on the previous January 1st and are due in two payments by November 10<sup>th</sup> and April 10<sup>th</sup>. Property taxes uncollected after November 10<sup>th</sup> and April 10<sup>th</sup> are considered delinquent, and the District may assess penalties and interest. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. Property taxes are collected by Lea County and remitted monthly to the District.

**Prepaid expenses:** Prepaid expenses include insurance and contract payments to vendors that reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Capital Assets:** Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

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

***D. Assets, Liabilities, and Net Position or Fund Balance (continued)***

Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) is included as part of the governmental capital assets reported in the financial statements. Information technology equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9C(5). Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings	25-40
Improvements	10-35
Equipment	3-20

**Accrued Expenses:** Accrued expenses are comprised of accrued payroll and payroll expenditures based on amounts earned by the employees through June 30, 2015.

**Deferred Inflows of Resources:** Deferred inflows of resources is an acquisition of net position by the District that is applicable to a future reporting period. The deferred inflows applicable to the District on the full accrual basis of accounting are property taxes received and receivable for the next fiscal year's property tax levy. For government-mandated and voluntary nonexchange transactions, the District recognizes receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts) when all applicable requirements, including time requirements are met. Resources received before the eligibility requirements are met are reported as unearned revenues, except for certain resources received in advance, such as contributions of works of art, historical treasures, and similar assets to capitalized collections. For these kinds of transactions, the District recognizes revenues when the resources are received, provided that all eligibility requirements have been met.

**Compensated Absences:** The District permits employees to accumulate a limited amount of earned but unused vacation leave based on employment classification and length of employment. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends.

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule depending on the length of service. No more than fifteen (15) working days, or one hundred twenty (120) hours of annual leave, may be carried forward from one year to the next. All excess annual leave shall be forfeited, if not used, unless extenuating circumstances warrant approval of an extension by the District Board.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental or proprietary fund that will pay it.

In prior years, all of the related expenditures have been liquidated by the general fund. Amounts vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide Statement of Net Position.

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

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

***D. Assets, Liabilities, and Net Position or Fund Balance (continued)***

**Net Position or Fund Balance Classification Policies and Procedures:**

*Fund Balance Classification Policies and Procedures:* For restricted fund balances, the District includes amounts that can be spent only for the specific purposes stipulated by statute, ordinance, resolution, or enabling legislation. Fund balances in this category represent the remaining amount that is restricted for future use in the specific fund.

For committed fund balances, the District includes amounts for specific purposes by formal action of the District Board of the Jal Hospital District.

For assigned fund balances, the District includes amounts that are intended to be spent for specific purposes, but are not restricted or committed.

Regarding the District's spending policies, in all cases, restricted, then committed, and then assigned fund balances are to be expended, in that order, prior to expenditures of any general (unassigned) funds designated for supplementing any given department. In this manner, only after restricted, committed, or assigned funds are expended will the District Board permit general unassigned funds be spent to meet a specific fund's objectives.

Equity is classified as net position and displayed in three components:

a. *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.

b. *Restricted net position:*

Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.

c. *Unrestricted net position:*

All other net positions that do not meet the definition of "restricted" or "net investment in capital assets."

***E. Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the District's financial statements include the allowance for uncollectible accounts, depreciation on capital assets, and the current portion of compensated absences.

**NOTE 2. Stewardship, Compliance, and Accountability**

*Budgetary Information*

Budgets are prepared annually by District personnel and include a proposed operating budget of estimated revenues and expenditures for the ensuing fiscal year. The budget and subsequent revisions are presented to the District's Board and the Department of Finance and Administration for approval. Line items within each budget may be over expended; however, it is not legally permissible to over expend any budget in total by fund.

The governmental fund budget is prepared on a Non-GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.



**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Notes to the Financial Statements  
 June 30, 2015

**NOTE 2. Stewardship, Compliance, and Accountability (continued)**

*Budgetary Information (continued)*

The budgetary information presented in these financial statements has been properly amended by the District Board in accordance with the above procedures. These amendments resulted in the following changes:

<b>Budgeted Funds</b>	Excess (deficiency) of revenues over expenditures	
	Original	Final
	Budget	Budget
Governmental funds		
General Fund	\$ (4,029)	\$ (4,029)

The accompanying Statement of Revenues, Expenditures, and Change in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

**NOTE 3. Deposit and Investments**

State statutes authorize the investment of District funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The District is not aware of any investments that did not meet the State investment requirements as of June 30, 2015.

Deposits of funds may be made in interest or noninterest 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 collateralized as required by statute. The financial institution must provide pledged collateral or 50.00% of the deposit amount in excess of the deposit insurance.

The rate of interest in nondemand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than 100.00% 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.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits, and negotiable order or 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 demands deposits at the same institution.

*Custodial Credit Risk- Deposits* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk, other than following state statutes as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). As of June 30, 2015, \$3,417,269 of the District's bank balances of \$3,667,269 was exposed to custodial credit risk. \$2,069,249 was uninsured and collateralized by securities held by the pledging bank's trust department, but not in the District's name and \$1,348,020 was uninsured and uncollateralized.

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Notes to the Financial Statements  
 June 30, 2015

**NOTE 3. Deposit and Investments (continued)**

	<u>Wells Fargo Bank</u>	<u>Total</u>
Amount of deposits	\$ 3,667,269	\$ 3,667,269
FDIC coverage	<u>(250,000)</u>	<u>(250,000)</u>
Total uninsured public funds	3,417,269	3,417,269
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the District's name	<u>2,069,249</u>	<u>2,069,249</u>
Uninsured and uncollateralized	<u>\$ 1,348,020</u>	<u>\$ 1,348,020</u>
Collateral requirement (50.00% of uninsured funds)	\$ 1,708,635	\$ 1,708,635
Pledged collateral	<u>2,069,249</u>	<u>2,069,249</u>
Over (under) collateralized	<u>\$ 360,614</u>	<u>\$ 360,614</u>

The collateral pledged is listed on Schedule II of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district, or political subdivision of the State of New Mexico.

*Investments*

The District invests excess cash in the *New MexiGROW* Local Government Investment Pool (LGIP). The LGIP investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not Securities and Exchange Commission (SEC) registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10P and Sections 6-10-10.1A and E, NMSA 1978. The pool does not have unit shares. Per Sections 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

*Interest Rate Risk-* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an instrument. The District and its component units do not have a formal investment policy that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The District's Investments at June 30, 2015 are summarized as follows:

<u>Investments</u>	<u>Rated</u>	<u>Weighted Average Maturity (days)</u>	<u>Fair Value</u>
<i>New MexiGROW</i> LGIP	AAAm	54.6 day WAM(R); 77.7 day WAM(F)	<u>\$ 737,339</u>
			<u>\$ 737,339</u>

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Notes to the Financial Statements  
 June 30, 2015

**NOTE 4. Receivables**

At June 30, 2015 receivables consisted of the following:

	<u>General</u>
Property taxes	\$ 396,972
Other receivables	
Charges for services	113,979
Intergovernmental	
State	<u>7,600</u>
	518,551
Allowance for uncollectible accounts	<u>(30,823)</u>
Receivables, net of allowance	<u><u>\$ 487,728</u></u>

**NOTE 5. Capital Assets**

Capital asset activity for the year ended June 30, 2015, is summarized as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated					
Land	<u>\$ 3,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,700</u>
Capital assets being depreciated					
Building and Improvements	1,127,686	-	140,480	-	1,268,166
Equipment	<u>216,057</u>	<u>12,905</u>	<u>10,176</u>	<u>-</u>	<u>239,138</u>
Total capital asset being depreciated	<u>1,343,743</u>	<u>12,905</u>	<u>150,656</u>	<u>-</u>	<u>1,507,304</u>
Total	<u>1,347,443</u>	<u>12,905</u>	<u>150,656</u>	<u>-</u>	<u>1,511,004</u>
					-
Less accumulated depreciation					
Building and Improvements	498,486	-	60,370	-	558,856
Equipment	<u>206,254</u>	<u>7,900</u>	<u>8,786</u>	<u>-</u>	<u>222,940</u>
	<u>704,740</u>	<u>7,900</u>	<u>69,156</u>	<u>-</u>	<u>781,796</u>
Total capital assets, net of depreciation	<u><u>\$ 642,703</u></u>	<u><u>\$ 5,005</u></u>	<u><u>\$ 81,500</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 729,208</u></u>

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Notes to the Financial Statements  
 June 30, 2015

**NOTE 5. Capital Assets (continued)**

Depreciation expense for the year ended June 30, 2015 was charged to governmental activities as follows:

General government	\$ 69,156
	\$ 69,156

**NOTE 6. Long-term Liabilities**

Long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance June 30, 2014	Restatement	Balance June 30, 2014 (as restated)	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 34,216	(29,098)	\$ 5,118	\$ 56,194	\$ 53,920	\$ 7,392	\$ 7,392
Total long-term debt	\$ 34,216	\$ (29,098)	\$ 5,118	\$ 56,194	\$ 53,920	\$ 7,392	\$ 7,392

**NOTE 7. Restatements**

The District has restated budgetary and government-wide net position. These are due to incorrectly recorded balances in the prior year as follows:

**Budgetary Restatements**

Fund Name	Fund Balance/Net Position Originally Reported 6/30/14	Restate Accrued Compensated Absences	Fund Balance/Net Position Restated 6/30/14
General fund	\$ 3,677,051	\$ (406,324)	\$ 3,270,727
	\$ 3,677,051	\$ (406,324)	\$ 3,270,727

**Government-Wide Restatements**

Fund Name	Net Position Originally Reported 6/30/14	Restate Accrued Compensated Absences	Fund Balance/Net Position Restated 6/30/14
Governmental activities	\$ 3,880,770	\$ 29,098	\$ 3,909,868
	\$ 3,880,770	\$ 29,098	\$ 3,909,868

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

**NOTE 8. Pension 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, 2015. The plan allows the District to fund between 0.00% to 15.00% of the gross salary of the employee, with the specific percent reviewed and approved by the Board of Trustees quarterly. The District does not qualify to participate in the Public Employees Retirement Association (PERA)'s alternative retirement plan.

The plan has adopted the following vesting schedule:

<u>Year</u>	<u>Amount Vested</u>
1	0.00%
2	20.00%
3	40.00%
4	60.00%
5	80.00%
6	100.00%

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 6.00% in year one and declines to zero (0) after year twelve (12). Employer contributions to the plan for the year ended June 30, 2015, 2014, and 2013 were \$56,293, \$62,775, and \$69,940 respectively.

**NOTE 9. Post-Employment Benefits- State Retiree Health Care Plan**

As authorized under Chapter 6, Section 9D, Laws of 1990, the District has elected not to participate in the Retiree Health Care Plan provided under the Retiree Health Care Act (Chapter 10, Article 7c, NMSA 1978) during the year ended June 30, 2015.

**NOTE 10. Risk Management**

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of property; errors and omissions; injuries to employees; and natural disasters. The District participates in a variety of insurance programs purchased primarily through a commercial carrier, for the risks of loss mentioned above, except for injuries to employees. For risks of loss related to injuries to employees, the District has not obtained coverage from a commercial insurance company but has effectively managed risk through various employee education and prevention programs.

**NOTE 11. Construction and Other Significant Commitments**

As of the year ended June 30, 2015, the District had no construction or other significant commitments in progress.

**NOTE 12. Contingent Liabilities**

The District is party to various litigation and other claims in the ordinary course of business. Management and the District's attorney are unaware of any material pending or threatened litigation, claims, or assessments against the District that are not covered by the District's insurance.

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Notes to the Financial Statements  
 June 30, 2015

**NOTE 13. State Grants**

In the normal course of operations, the District receives grant funds from state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

**NOTE 14. Concentrations**

The District depends on financial resources flowing from, or associated with, 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 state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

**NOTE 15. Change in Accounting Policies**

As discussed in Note 1, the District has updated its accounting policies to conform to a governmental funds presentation as required by GASB Statement No. 34. The District now presents government-wide financial statements, as well as fund presentations, and the changes of accounting policies to reflect this change in the operating environment are outlined in Note 1. Overall equity of the District has not changed from the amounts presented in the fiscal year ended June 30, 2014 financial statements. However, a reconciliation of the full accrual presentation in the prior year to the beginning balance of modified accrual equity has been presented below.

Net position per financial statements as of June 30, 2014	\$ 3,880,770
Less	
Prior year capital assets	(642,703)
Prior year deferred property tax revenue	(1,556)
Add	
Prior year accrued compensated absences	<u>34,216</u>
Total beginning fund balance	<u><u>\$ 3,270,727</u></u>

**NOTE 16. Subsequent Events**

Jal Hospital District has evaluated events subsequent to June 30, 2015 that would possibly require adjustment or disclosure in these financial statements, through October 5, 2015, the date that these financial statements were available to be issued.

No events have occurred subsequent to June 30, 2015 that would require adjustment of modification to the contents of these statements.

**NOTE 17. Other Required Individual Fund Disclosures**

Generally accepted accounting principles require certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The District had no deficit fund balances as of June 30, 2015.
- B. Excess of expenditures over budgeted amounts. The District had no fund where expenditures were in excess of budgeted amounts as of June 30, 2015.
- C. Designated cash appropriations exceeding prior year available balances. The District had no funds exceeding available balances as of June 30, 2015.

**STATE OF NEW MEXICO**  
Jal Hospital District  
Notes to the Financial Statements  
June 30, 2015

**NOTE 18. Subsequent Pronouncements**

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016 with earlier application being encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 with earlier application being encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 with earlier application being encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

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**SUPPLEMENTARY INFORMATION**

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**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Schedule of Deposit and Investment Accounts  
 June 30, 2015

Schedule I

Account Name	Account Type	Wels Fargo Bank	NM State Treasurer	Total
Deposits				
General	Checking- noninterest bearing	\$ 3,667,269	\$ -	\$ 3,667,269
Total amount of deposit in bank		3,667,269	-	3,667,269
Less: FDIC coverage		(250,000)	-	(250,000)
Total uninsured public funds		3,417,269	-	3,417,269
50% collateral requirements		1,708,635	-	1,708,635
Pledged securities		2,069,249	-	2,069,249
Over/(under) collateralized		360,614	-	360,614
Bank balance		3,667,269	-	3,667,269
Outstanding items		(4,057)	-	(4,057)
Deposits in transit		1,945	-	1,945
Book balance		<u>\$ 3,665,157</u>	<u>\$ -</u>	<u>\$ 3,665,157</u>
Investments				
Local Government Investment Pool	LGIP	\$ -	\$ 737,339	\$ 737,339
Total investments		-	737,339	737,339
Petty cash				500
Deposits and investments per Schedule I				<u>\$ 4,402,996</u>
Cash and cash equivalents per Exhibit A-1				\$ 3,665,657
Investments per Exhibit A-1				<u>737,339</u>
Deposits and investments per Statement of Net Position				<u>\$ 4,402,996</u>

See independent auditors' report

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Schedule of Collateral Pledged by Depository for Public Funds  
 June 30, 2015

Schedule II

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2015	Name and Location of Safekeeper
Wells Fargo Bank					
	FN AH0921 4.000%	12/1/2040	3138A2AX7	\$ 1,107,623	Federal Reserve Bank
	FN AH0946 4.000%	12/1/2040	3138A2BQ1	126,933	Federal Reserve Bank
	FN AJ9198 3.5000%	1/1/2042	3138E2GG4	250,087	Federal Reserve Bank
	FN AR9199 3.000%	3/1/2043	3138W7GH1	17,107	Federal Reserve Bank
	FN AT2722 3.000%	5/1/2043	3138WQAY8	3,916	Federal Reserve Bank
	FN AU0924 3.500%	7/1/2043	3138X0A24	44,964	Federal Reserve Bank
	FN AB7741 3.000%	1/1/2043	31417ES77	345,241	Federal Reserve Bank
	FN AB7744 3.000%	1/1/2043	31417ETA9	22,145	Federal Reserve Bank
	FN AB9378 3.500%	5/1/2043	31417GM45	109,874	Federal Reserve Bank
	FN AE4589 4.000%	9/1/2040	31419FC38	41,359	Federal Reserve Bank
	Total pledged collateral			<u>\$ 2,069,249</u>	

See independent auditors' report

**STATE OF NEW MEXICO**  
Jal Hospital District  
Schedule of Vendor Information for Purchases Exceeding \$60,000 (excluding GRT)  
June 30, 2015

<u>RFB#/ RFP#</u>	<u>Type of Procurement</u>	<u>Awarded Vendor</u>	<u>Amount of Awarded Contract</u>	<u>Amount of Amended Contract</u>
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No items meeting the \$60,000 threshold reporting requirement were noted for the current year.

Name and Address of Responders	In-State/ Out-of-State Vendor	In-State Vendor Who Elected Veteran's Preference	Description of Work
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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*  
INDEPENDENT AUDITORS' REPORT**

Timothy Keller  
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 governmental activities, the general fund and the budgetary comparison of the general fund, of Jal Hospital District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness as item FS 2010-001.

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 2015-001 and FS 2015-002.

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 2012-001 and FS 2012-002.

### 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 entity'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 entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

*Accounting & Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
October 5, 2015

**OTHER DISCLOSURES**

**STATE OF NEW MEXICO**  
 Jal Hospital District  
 Schedule of Findings and Responses  
 June 30, 2015

**Section I- Summary of Audit Results**

Financial Statements:

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Unmodified |
| 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?                     | None Noted |

**Section II- Prior Year Audit Findings**

- |   |                      |
|---|----------------------|
| FS 2010-001 Segregation of Duties   | Revised and Repeated |
| 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 2014-001 Deficiencies in Internal Control Structure Design, Operation, and Oversight | Resolved             |
| FS 2014-002 Capital Asset Balance Discrepancies   | Resolved             |
| FS 2014-003 Unsupported Compensated Absences Balances                                   | Resolved             |
| FS 2014-004 Travel and Per Diem   | Resolved             |
| FS 2014-005 Noncompliance with the Procurement Code                                     | Resolved             |
| FS 2014-006 Allowance for Doubtful Accounts Calculation                                 | Resolved             |
| FS 2014-007 Credit Card Expenditures  | Resolved             |
| FS 2014-008 Late IPA Recommendation   | Resolved             |

**Section III- Financial Statement Findings**

**FS 2010-001 Segregation of Duties (Material Weakness-weakness in internal control)**

*Condition:* The District does not have a comprehensive documented internal control structure to ensure effective design, operation, and oversight.

The District has developed an independent review process, but has not yet revised the written policies to document the review process.

*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.

*Effect:* Compensating controls are difficult to identify to ensure that management is doing all that it can to circumvent its inherent risk of inadequate segregation of duties.

*Cause:* There is not a documented internal control structure that describes the processes the District takes to circumvent their inherent risk of inadequate segregation of duties due to limited staff.

*Auditors' Recommendations:* We recommend that the District's management along with the governing body develop a written comprehensive internal control policy to ensure that the controls used by the District for financial reporting are documented and followed by management.

*Views of Responsible Officials and Planned Corrective Action:* The District will develop a written comprehensive internal control policy to ensure that controls used by the District are documented and followed by management. The policy will be written by the District and adopted at the October regular meeting to be held on October 26, 2015. The District Board of Trustees and the office manager will work together to develop the policy.

**Section III- Financial Statement Findings (continued)**

**FS 2012-001 Lack of Internal Controls over Voided Checks (Finding That Does Not Rise to Significant Deficiency)**

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

- Out of 54 voided checks tested, 4 checks were not voided correctly.
  - Checks 24766 and 25241 were not recorded in the system, and there was no original check maintained at the District
  - Check 25457 was voided in the system, but no original check was maintained or an explanation as to where it might be
  - Check 25271 had an original voided check, but the check was not voided in the system.
- During review of bank reconciliations, it was noted that five deposit items totaling \$992.69 and three disbursement items totaling \$750.67 have been outstanding for more than a year but have not been voided in the system.

The District has not yet developed a process to ensure all voided checks are accounted for and voided in the system. The District has also not developed a policy on voiding checks outstanding for more than one year.

*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.

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:* The District will seek assistance from a Quickbooks expert to correct the issue of outstanding deposits and checks in the system. They will also assist with the financial statements as required. District Trustees will sign off on each voided check. These actions will be written into the District policy for internal controls. Action on this issue will be taken at the regular board meeting scheduled for October 26, 2015. The position responsible for this is the office manager.



**Section III- Financial Statement Findings (continued)**

**FS 2012-002 Lack of Internal Controls over Access to Servers (Finding That Does Not Rise to Significant Deficiency)**

*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.

Due to the way the building has been wired, the District has not been able to move their servers to a different location, but is discussing with their IT company ways in which the new server the District has purchased for its Electronic Health Records can be located in a different, more secure location within the building.

*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.

*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' Recommendations:* We recommend that the District find a way to place the servers behind a locked door to prevent access from unauthorized individuals.

*Views of Responsible Officials and Planned Corrective Actions:* The District will address this by installing a wire mesh expandable gate for the server area. The Overhead Door Company has been contacted and will assist with this issue. This should be taken care of in the next two weeks. The office manager and the Board of Trustees are responsible for undertaking this matter.

**Section III- Financial Statement Findings (continued)**

**FS 2015-001 Capital Assets (Significant Deficiency-significant deficiency in internal control)**

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

- For the assets reported as additions in QuickBooks, it was found that 23 of the additions totaling \$46,830.03 were incorrectly classified as capital assets.
- Two of the asset additions identified by the District in QuickBooks totaling \$10,176.12 were not included on the list provided to the auditors.
- One asset totaling \$12,680.00 was incorrectly recorded in repairs and maintenance.

*Criteria:* NMAC 2.20.1 states that each agency shall establish controls over its fixed assets for the primary purposes of safeguarding them and establishing accountability for their custody and use. It further goes on to describe that fixed assets acquired through purchase shall be recorded at cost, which includes monetary value exchanged and associated costs to prepare the asset for its intended use. These associated costs include freight or shipping taxes, site preparation and installation, testing, reconditioning, direct labor, materials, and equipment use. Repairs and maintenance on fixed assets, which are routine and necessary for continued safe and productive operation, should be charged to maintenance expense in the period in which they occur.

*Effect:* Assets are more susceptible to being misclassified and materially misstating financial information.

*Cause:* The District was unable to correctly identify assets in the current year and create an accurate capital assets listing.

*Auditors' Recommendation:* We recommend that the District carefully review invoices to determine if a potential asset meets the capitalization threshold and the requirements to be considered a capital asset before recording them in the system. Those items recorded should then be included in the capital asset list maintained each year.

*Views of Responsible Officials and Planned Corrective Action:* The District will review all assets on the capital asset listing to insure they are recorded properly. The listing will be created by the financial department and approved by the Board of Trustees. This will be done by the office manager of the District before the end of the 2016 fiscal year.

**Section III- Financial Statement Findings (continued)**

**FS 2015-002 Inaccurate Compensated Absences Listing (Significant Deficiency-significant deficiency in internal control)**

*Condition:* The District was unable to provide the auditors with an accurate compensated absences listing, and material adjustments were needed in the current year. After reviewing written policies related to accrued vacation as established by the District, a restatement of \$29,098 was required in the current year to adjust beginning balances. Calculated ending balances were estimated to be \$22,814 less than the calculation by the District.

*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.

*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 written policies.

*Cause:* Management has not updated written policies for several years, and employees have been allowed to take more vacation than the policy dictates.

*Auditors' Recommendation:* We recommend that the District update written policies at least every two years and to clearly document what the policies are in regards to how vacation is accrued, how it is to be taken, how many carryover hours are permitted if any, and how much is to be paid out upon termination.

*Views of Responsible Officials and Planned Corrective Action:* The District will review and revise the present policy to include the recent changes to vacations for the employees. The vacation time will be tracked to insure that all vacation taken is within the policy guidelines. This will be done by the office manager throughout the fiscal year to ensure that vacation is being tracked and recorded properly.

**STATE OF NEW MEXICO**

Jal Hospital District

Other Disclosures

June 30, 2015

**Auditor Prepared Financial Statements**

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes for 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.

**Exit Conference**

An exit conference was held on October 5, 2015. In attendance were the following:

**Representing Jal Hospital District**

Stephen Aldridge

Joyce Pittam

Carolynn Swain

Chairman

Secretary

Office Manager

**Representing Accounting & Consulting Group, LLP**

Shelley Olson, CPA

Eric Olson

Manager

Staff Accountant