

JAL HOSPITAL DISTRICT

Financial Statements For the year ended June 30, 2017



Johnson Miller & Co.
Certified Public Accountants
A Professional Corporation

INTRODUCTORY SECTION

STATE OF NEW MEXICO

Jal Hospital District

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June 30, 2017

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STATE OF NEW MEXICO

Jal Hospital District

Official Roster

June 30, 2017

Name

Title

Board of Trustees

Stephen Aldridge

Chairman

W.E. Armstrong

Vice Chairman

Joyce Pittam

Secretary Treasurer

Saul Monroy

Board Trustee

Jim Ellison

Board Trustee

Administration

Carolynn Swain

Administrator

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Tim Keller
New Mexico State Auditor
Executive Board and
Operations Committee Board
Jal Hospital District
Jal, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the budgetary comparison for the general fund of the Jal Hospital District (the District) as of and for the year ended June 30, 2017, 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 our opinion 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 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity of the District, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance 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 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 Matter

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2017 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.

Hobbs, NM
October 12, 2017



**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO

Exhibit A-1

Jal Hospital District
Statement of Net Position
June 30, 2017**ASSETS**

Current assets	
Cash and cash equivalents	\$ 6,400,219
Investments	742,683
Receivables, net of \$44,594 allowance	601,214
Inventory	6,800
Prepaid expenses	31,692
	<hr/>
Total current assets	7,782,608
	<hr/>
Noncurrent assets	
Capital assets	2,433,643
Accumulated depreciation	(883,951)
	<hr/>
Total noncurrent assets	1,549,692
	<hr/>
Total assets	\$ 9,332,300
	<hr/> <hr/>

LIABILITIES

Current liabilities	
Accounts payable	\$ 341,032
Accrued payroll	43,451
Accrued compensated absences	49,905
Other current liabilities	29,573
	<hr/>
Total current liabilities	463,961
	<hr/>
Total liabilities	463,961
	<hr/> <hr/>

NET POSITION

Net invested in capital assets	1,549,692
Unrestricted	7,318,647
	<hr/>
Total net position	8,868,339
	<hr/>
Total liabilities and net position	\$ 9,332,300
	<hr/> <hr/>

STATE OF NEW MEXICO
 Jal Hospital District
 Statement of Activities
 For the Year Ended June 30, 2017

Exhibit A-2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	
Primary Government					
Governmental activities					
General government	\$ 1,684,483	\$ 196,041	\$ 104,800	\$ -	\$ (1,383,642)
Total governmental activities	\$ 1,684,483	\$ 196,041	\$ 104,800	\$ -	(1,383,642)
		General revenues			
		Property taxes, levied for general purposes		514,290	
		Oil and gas taxes		2,886,154	
		Investment income		4,643	
		Miscellaneous income		63,534	
		Total general revenues		3,468,621	
		Change in net position		2,084,979	
		Net position- beginning of year		6,783,360	
		Net position- end of year		\$ 8,868,339	

STATE OF NEW MEXICO

Jal Hospital District

Balance Sheet

Governmental Fund

June 30, 2017

Exhibit B-1

Page 1 of 2

	<u>General Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,400,219
Investments	742,683
Receivables, net of \$44,594 allowance	601,214
Inventory	6,800
Prepaid expenses	<u>31,692</u>
Total assets	<u>\$ 7,782,608</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	
Current liabilities	
Accounts payable	\$ 341,032
Accrued payroll	43,451
Other current liabilities	<u>29,573</u>
Total liabilities	<u>414,056</u>
Deferred inflows of resources	
Property taxes	<u>78,505</u>
Total deferred inflows of resources	<u>78,505</u>
Fund balance	
Nonspendable	
Inventory	6,800
Prepaid Expenses	31,692
Unassigned	<u>7,251,555</u>
Total fund balance	<u>7,290,047</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 7,782,608</u>

STATE OF NEW MEXICO
 Jal Hospital District
 Reconciliation of the Balance Sheet to the Statement of Net Position
 Governmental Fund
 June 30, 2017

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

Fund balance- governmental fund	\$ 7,290,047
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund	1,549,692
Property tax revenues not collected within sixty days after year end are not considered "available" revenues and are considered to be deferred revenue in the fund financial statements, but are considered revenue in the Statement of Activities	78,505
Accrued compensated absences are not due and payable in the current period and therefore, are not reported in the fund	<u>(49,905)</u>
Net position of governmental activities	<u><u>\$ 8,868,339</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, 2017

	General Fund
Revenues	
Taxes	
Property	\$ 437,276
Intergovernmental	
State operating grants	104,800
Charges for services	196,041
Oil and gas income	2,886,154
Investment income	4,643
Miscellaneous	63,534
 Total revenues	 3,692,448
Expenditures	
Current	
General government	1,586,970
Capital outlay	723,518
 Total expenditures	 2,310,488
 Net change in fund balance	 1,381,960
 Fund balance- beginning of year	 5,908,087
 Fund balance- end of year	 \$ 7,290,047

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, 2017

Exhibit B-2

Page 2 of 2

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

Net change in fund balance - governmental fund	\$ 1,381,960
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The governmental fund reports 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 expenditures	723,518
Depreciation expense	(97,514)

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	<u>77,015</u>
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Change in net position of governmental activities	<u>\$ 2,084,979</u>
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STATE OF NEW MEXICO

Exhibit C-1

Jal Hospital District

General Fund

Statement of Revenues, Expenditures, and Change in Fund Balance
 Budget (Modified Accrual Budgetary Basis) and Actual
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Taxes				
Property taxes	1,200,000	1,200,000	437,276	\$ (762,724)
Intergovernmental income				
State operating grants	104,800	104,800	104,800	-
Charges for services	414,500	414,500	196,041	(218,459)
Oil and gas income	-	-	2,886,154	2,886,154
Investment income	5,000	5,000	4,643	(357)
Miscellaneous income	17,400	17,400	63,534	46,134
Total revenues	<u>1,741,700</u>	<u>1,741,700</u>	<u>3,692,448</u>	<u>1,950,748</u>
Expenditures				
Current				
General government	2,574,392	2,574,392	1,586,970	987,422
Capital outlay	1,870,000	1,870,000	723,518	1,146,482
Total expenditures	<u>4,444,392</u>	<u>4,444,392</u>	<u>2,310,488</u>	<u>2,133,904</u>
Excess (deficiency) of revenues over expenditures	<u>(2,702,692)</u>	<u>(2,702,692)</u>	<u>1,381,960</u>	<u>4,084,652</u>
Other financing sources (uses)				
Designated cash (budgeted increase in cash)	<u>2,702,692</u>	<u>2,702,692</u>	<u>-</u>	<u>(2,702,692)</u>
Total other financing sources (uses)	<u>2,702,692</u>	<u>2,702,692</u>	<u>-</u>	<u>(2,702,692)</u>
Excess (deficiency) of revenues and other sources (uses) over expenditures	<u>-</u>	<u>-</u>	<u>1,381,960</u>	<u>1,381,960</u>
Fund balance- beginning of year	<u>-</u>	<u>-</u>	<u>5,908,087</u>	<u>5,908,087</u>
Fund balance- end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,290,047</u>	<u>\$ 7,290,047</u>

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

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 (medical 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, 1989, 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.

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. This statement had no effect the District.

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. This statement had no effect the District.

In April 2015, GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*, was issued. The provisions of the statement are effective for financial statements for periods beginning after December 15, 2015. We have evaluated any potential effects this statement would have on the District. We contacted the potential abating agency who confirmed there were no abatements involving the District.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

In December 2015, GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*, to address an issue relating to the availability of data relating to multiple-employer defined benefit plans that arose during the implementation of GASB Statement No. 68. The provisions of the statement are effective for financial statements for periods beginning after December 15, 2015. This statement had no effect the District.

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*.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

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

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 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.

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

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. 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.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are measured on a reoccurring basis using quoted market prices (Level 1 inputs).

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

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

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 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 10th and April 10th. Property taxes uncollected after November 10th and April 10th 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 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, 2017.

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.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

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

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 twenty (20) working days, or one hundred sixty (160) hours of annual leave, may be accrued during a fiscal year. 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 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.

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:*
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."

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2017

NOTE 1 Summary of Significant Accounting Policies (continued)

F. 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 modified accrual basis, excluding encumbrances, and secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements was not amended during the fiscal year:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	<u>\$(2,702,692)</u>	<u>\$(2,702,692)</u>

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

NOTE 3 Deposits 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, 2017. 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.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2017

NOTE 3 Deposits and Investments (continued)

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, 2017, \$6,149,758 of the District's bank balances of \$6,399,758 was exposed to custodial credit risk. \$3,402,545 was uninsured and collateralized by securities held by the pledging bank's trust department, but not in the District's name and \$2,747,214 was uninsured and uncollateralized.

	Wells Fargo Bank	Total
Amount of Deposits	\$ 6,399,758	\$ 6,399,758
FDIC coverage	(250,000)	\$ (250,000)
Total uninsured public funds	6,149,758	6,149,758
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name	3,402,545	3,402,545
Uninsured and uncollateralized	\$ 2,747,214	\$ 2,747,214
Collateral requirement (50% of uninsured public funds)	\$ 3,074,879	\$ 3,074,879
Pledged security	3,402,545	3,402,545
Over (under) collateralization	\$ 327,665	\$ 327,665

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.

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2017

NOTE 3 Deposits and Investments (continued)

The District's Investments at June 30, 2017 are summarized as follows:

<u>Investments</u>	<u>Rated</u>	<u>Weighted Average Maturity (days)</u>	<u>Total</u>
<i>New MexiGROW</i> LGIP	AAAm	58 day WAM (R); 106 day WAM (F)	742,683
			<u>\$ 742,683</u>

NOTE 4 Receivables

Accounts receivable as of June 30, 2017, are as follows:

	<u>General</u>
Property taxes	\$ 524,188
Other receivables	
Charges for services	114,020
Intergovernmental	
State	<u>7,600</u>
	645,808
Allowance for uncollectible accounts	<u>(44,594)</u>
Receivables, net allowance	<u>\$ 601,214</u>

STATE OF NEW MEXICO
 Jal Hospital District
 Notes to the Financial Statements
 June 30, 2017

NOTE 5 Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2017, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital assets not being depreciated					
Land	\$ 3,700	\$ -	\$ -	\$ -	\$ 3,700
Beech Street House	82,000	-	-	82,000	-
Beech Street Remodel & Fence	40,991	-	-	40,991	-
Phone System	15,180	-	-	15,180	-
Construction in Progress	-	385,072	-	-	385,072
	<u>141,871</u>	<u>385,072</u>	<u>-</u>	<u>138,171</u>	<u>388,772</u>
Capital assets being depreciated					
Building and Improvements	1,275,040	-	-	122,991	1,398,031
Equipment	343,124	338,446	49,910	15,180	646,840
	<u>1,618,164</u>	<u>338,446</u>	<u>49,910</u>	<u>138,171</u>	<u>2,044,871</u>
Total capital assets being depreciated	<u>1,618,164</u>	<u>338,446</u>	<u>49,910</u>	<u>138,171</u>	<u>2,044,871</u>
Total capital assets	<u>1,760,035</u>	<u>723,518</u>	<u>49,910</u>	<u>-</u>	<u>2,433,643</u>
Less accumulated depreciation					
Building and Improvements	619,226	71,520	-	-	690,746
Equipment	217,121	25,994	49,910	-	193,205
	<u>836,347</u>	<u>97,514</u>	<u>49,910</u>	<u>-</u>	<u>883,951</u>
Total accumulated depreciation	<u>836,347</u>	<u>97,514</u>	<u>49,910</u>	<u>-</u>	<u>883,951</u>
Total capital assets, net of depreciation	<u>\$ 923,688</u>	<u>\$ 626,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,549,692</u>

Depreciation expense for the year ended June 30, 2017 was charged to the governmental activities in the amount of \$97,514.

NOTE 6 Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	June 30, 2016	Additions	Retirements	June 30, 2017	Due Within One Year
Compensated absences	\$ 49,905	\$ 56,463	\$ 56,463	\$ 49,905	\$ 49,905
Total long-term debt	<u>\$ 49,905</u>	<u>\$ 56,463</u>	<u>\$ 56,463</u>	<u>\$ 49,905</u>	<u>\$ 49,905</u>

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 7 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, 2017. 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:

Year	Amount Vested
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, 2017, 2016, and 2015 were \$72,837, \$89,656, and \$56,293, respectively.

NOTE 8 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, 2017.

NOTE 9 Commitments Under Contractual Agreements

The District had construction in progress on its clinic building of which approximately \$1,115,000 was unexpended at June 30, 2017.

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 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, 2017

NOTE 12 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 13 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.

NOTE 14 Other Required Individual Fund Disclosures

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

- A. Deficit fund balance of individual funds. The District did not reflect a deficit fund balance as of June 30, 2017.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary level is fund level. The District did not have any funds that exceeded approved budgetary authority for the year ended June 30, 2017.
- C. Designated cash appropriations in excess of available balances. The District did not have any funds where cash appropriations exceeded available balances for the year ended June 30, 2017.

NOTE 15 Subsequent Pronouncements

In January 2016, GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, to clarify the financial statement presentation requirements for certain component units. The statement enhances comparability of financial statements among state and local governments. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2016. This statement is expected to have no effect on the District.

In March 2016, GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, to improve accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements. The provisions of the statement are effective for financial statements for periods beginning after December 15, 2016. This statement is expected to have no effect on the District.

In March 2016, GASB issued GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, to address implementation issues that arose during the implementation of the GASB pension suite (Nos. 67, 68, and 73). GASB Statement No. 82 is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 related to selection of assumptions, which is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in previous GASB standards. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2018. The District is still evaluating how this pronouncement will affect the financial statements.

STATE OF NEW MEXICO
Jal Hospital District
Notes to the Financial Statements
June 30, 2017

NOTE 15 Subsequent Pronouncements (continued)

In January 2017, GASB issued GASB Statement No. 84, *Fiduciary Activities*, to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This statement provides guidance regarding what constitutes fiduciary activities for accounting and reporting purposes and how they should be reported by establishing criteria for identifying and reporting fiduciary activities of all state and local governments. The provisions of the statement are effective for financial statements for periods beginning after December 15, 2018. The District is still evaluating how this pronouncement will affect the financial statements.

NOTE 16 Subsequent Events

Jal Hospital District has evaluated events subsequent to June 30, 2017 that would possibly require adjustment or disclosure in these financial statements, through October 12, 2017, the date that these financial statements were available to be issued.

No events have occurred subsequent to June 30, 2017 that would require adjustment of modification to the contents of these statements.

SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 Jal Hospital District
 Schedule of Deposit and Investment Accounts
 June 30, 2017

Schedule I

Account Name	Account Type	Wells Fargo Bank	NM State Treasurer	Total
Deposits				
General	Checking (non-interest bearing)	\$ 6,399,758	\$ -	\$ 6,399,758
Total amount of deposit in bank		6,399,758	-	6,399,758
Less: FDIC coverage		(250,000)	-	(250,000)
Total uninsured public funds		6,149,758	-	6,149,758
50% collateral requirements		3,074,879	-	3,074,879
Pledged securities		3,402,545	-	3,402,545
Over/(under) collateralized		327,665	-	327,665
Bank balance		6,399,758	-	6,399,758
Outstanding items		(467)	-	(467)
Deposits in transit		317	-	317
Book balance		\$ 6,399,608	\$ -	\$ 6,399,608
Investments				
Local Government Investment Pool	LGIP	\$ -	\$ 742,683	\$ 742,683
Total investments		-	742,683	742,683
Petty cash				611
Deposits and investments per Schedule I				\$ 7,142,902
Cash and cash equivalents per Exhibit A-1				6,400,219
Investments per Exhibit A-1				742,683
Deposits and investments per Statement of Net Position				\$ 7,142,902

See independent auditors' report

STATE OF NEW MEXICO

Schedule II

Jal Hospital District

Schedule of Collateral Pledged by Depository for Public Funds

June 30, 2017

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2017	Name and Location of Safekeeper
Wells Fargo Bank	FMAC FGPC 3.500%	3/1/2042	3132GRZP9	\$ 303,814	Federal Reserve Bank
	FMAC FGPM 2.000%	12/15/2041	3137ARHD1	3,858	Federal Reserve Bank
	FNMA FNMS 3.000%	11/1/2026	3138EHE57	3,094,873	Federal Reserve Bank
	Total pledged collateral			<u>\$ 3,402,545</u>	

See independent auditors' report

COMPLIANCE SECTION



INDEPENDENT AUDITOR'S 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*

Tim Keller
New Mexico State Auditor
Executive Board and
Operations Committee Board
Jal Hospital District
Jal, New Mexico

We have audited, 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, the financial statements of the governmental activities and the budgetary comparison statement of the general fund for Jal Hospital District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and related budgetary comparison of the agency and have issued our report thereon dated October 12, 2017.

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 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as items FS 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2017-002, FS 2017-003, FS and 2017-004.

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 of 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hobbs, NM
October 12, 2017

A handwritten signature in blue ink that reads "Johnson Miller & Co., CPA's PC". The signature is written in a cursive style and is located in the upper right quadrant of the page.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2017

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? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Section II- Prior Year Audit Findings

- FS 2016-001 Preparation of Financial Statements - Repeated
- FS 2016-002 Approval of Invoices by Board - Resolved
- FS 2016-003 No Invoice for Petty Cash Purchase - Resolved
- FS 2016-004 Timesheet Calculation Incorrect – Resolved
- FS 2016-005 No Board Approval for Compensation Update – Resolved
- FS 2016-006 Time Card Authorization – Resolved
- FS 2016-007 Lack of Documentation in Personnel Files (W-4) – Resolved
- FS 2016-008 Annual Inventory of Fixed Assets Approved by Board – Resolved
- FS 2016-009 No Procurement Officer – Repeated
- FS 2016-010 Informal Policies and Approval From Board - Resolved

Section III- Financial Statement Findings and Responses

FS 2017-001 (2016-001) – Significant Deficiency – Preparation of Financial Statements

Condition: The financial statements and related disclosures are not being prepared by the District. The Administrator has not received additional training to gain additional knowledge and understanding of the financial statements and related disclosures, nor has the Board recruited a member who has appropriate skills, knowledge, and experience to assist in reviewing the financial statements.

Criteria: Per SAS 112, the District's system of internal control should include controls over financial statement preparation, including footnote disclosures.

Effect: Insufficient controls over the preparation of financial statements and related disclosures limit the District's ability to prevent or detect a misstatement in its financial statements.

Cause: The District does not have the personnel with appropriate knowledge or experience to prepare the financial statements and related disclosures.

Auditors' Recommendation: We recommend the District's management and personnel receive training on financial reporting and/or recruit a Board Member with appropriate skills, knowledge and experience.

Views of Responsible Officials and Planned Corrective Actions: The District's Administrator was scheduled to take the training required to gain knowledge and understanding of the financial statements and the related disclosures. She had to have emergency eye surgery and was not able to travel or change altitude for several months. The Administrator will seek the training necessary or recruit a Board member with that knowledge immediately.

Section III- Financial Statement Findings and Responses (continued)

FS 2017-002 (2016-009) – Other Matter – No Procurement Officer

Condition: The District does not have a chief procurement officer (CPO). The District’s Administrator has signed up for the training and certification to become a chief procurement officer which will be held in October 2017.

Criteria: NMAC 13-1-95.2 states on or before of each year beginning in 2014, and every time a chief procurement officer is hired, each state agency and local public body shall provide to the state purchasing agent the name of the state agency's or public body's chief procurement officer and information identifying the state agency's or local public body's central purchasing office, if applicable.

Effect: The District is not in compliance with the New Mexico procurement statute. This may result in fines or penalties.

Cause: The Administrator was not able to schedule this training and certification during the year ended June 30, 2017.

Auditors’ Recommendations: The Administrator should follow the plan to complete the CPO training and certification and follow all requirements of Title 1, Chapter 4, Part 1 of the NMAC (13-1-95.2).

Views of Responsible Officials and Planned Corrective Actions: The Administrator was scheduled to attend the training during fiscal year 2017, but because of her eye surgery had to postpone it. The Administrator and the Assistant Financial Manager are scheduled to attend the Procurement Officer training October 17th through the 20th, 2017 at the New Mexico State University Campus in Albuquerque, New Mexico.

STATE OF NEW MEXICO
Jal Hospital District
Schedule of Findings and Responses
June 30, 2017

Schedule III
4 of 5

Section III- Financial Statement Findings and Responses (continued)

FS 2017-003 – Control Deficiency – Lack of Authorized Signature

Condition: During our audit, it was noted that one out of forty disbursements tested in the amount of \$134.90 was missing one out of the two authorizing signatures required by the District’s policy. This appears to be an isolated instance.

Criteria: The District’s accounting policy states “Checks are printed and must be signed by two parties. One signee must be a Board member.”

Effect: Checks could be disbursed without proper approval.

Cause: A Board member signs checks in small batches and the above referenced disbursement was most likely stuck to another check that the Board member missed.

Auditors’ Recommendations: We recommend the District assign someone at the Clinic to review all checks for the dual signature requirement before sending out the signed checks to vendors.

Views of Responsible Officials and Planned Corrective Actions: All checks are to be signed by two people. The person responsible for mailing the remittance, the Assistant Financial Manager, will do a double check to ensure that both signatures have been completed on the check prior to mailing. This process will begin immediately.

Section III- Financial Statement Findings and Responses (continued)

FS 2017-004 – Control Deficiency – Notification of Disposals to the State Auditor

Condition: During the year ended June 30, 2017, the District sold a vehicle. The District also disposed of two other fixed assets during the year. The District did not send notification to the State Auditor for these disposals.

Criteria: Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of tangible personal property owned by state agencies, local public bodies, school districts, and state educational institutions. At least 30 days prior to any disposition of property included on the agency inventory list described at Subsection W of 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action shall be sent to the state auditor.

Effect: The District is not in compliance with Subsection U of 2.2.2.10 NMAC.

Cause: The District has been sending notification and receiving approval from the Department of Finance and Administration for disposals; however, the District was unaware of the notification requirement to the State Auditor.

Auditors' Recommendations: We recommend the District assign someone at the Clinic the responsibility of notifying the State Auditor at least 30 days prior to disposition of property included on the agency inventory list. Copies of these notifications should be kept on file at the District.

Views of Responsible Officials and Planned Corrective Actions: The District will insure that the State Auditor's office is given written notification advising them that items are to be put into disposal. The Administrator will be responsible to see that the State Auditor's Office has been notified any time an item is to be disposed of and removed from the asset listing. This process will begin immediately.

STATE OF NEW MEXICO

Jal Hospital District

Other Disclosures

June 30, 2017

OTHER DISCLOSURES

Exit Conference

The contents of this report were discussed on October 12, 2017. The following individuals were in attendance:

Representing the Jal Hospital District:

Carolynn Swain

Kandace Claridy

Joyce Pittam

Administrator

Financial Assistant

Secretary

Representing Johnson, Miller & Co., CPAs:

Tabatha Coffey, CPA

Diana Gallegos

On-Site Manager

Staff Auditor

Auditor Prepared Financial Statements

Although it would be preferred and desirable for the District to prepare its own financial statements, the District's personnel did not have the time nor the knowledge to prepare them. Johnson, Miller & Co., CPAs prepared the financial statements of the Jal Hospital District from the original books and records provided to them by the management of the District. Management is responsible for the financial statements.