



NOR-LEA HOSPITAL DISTRICT

**REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

JUNE 30, 2014 and 2013

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

TABLE OF CONTENTS

NOR-LEA HOSPITAL DISTRICT

INTRODUCTORY SECTION

Official Roster	1
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FINANCIAL SECTION

Report of Independent Auditors	2
--------------------------------------	---

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
---	---

BASIC FINANCIAL STATEMENTS

Statements of Net Position	15
----------------------------------	----

Statements of Revenues, Expenses and Changes in Net Position	16
---	----

Statements of Cash Flows.....	17
-------------------------------	----

Notes to Financial Statements.....	19
------------------------------------	----

SUPPLEMENTARY INFORMATION

Schedule of Revenues and Expenses with Budget Comparison.....	38
--	----

Schedule of Deposit and Investment Accounts.....	39
--	----

Schedule of Pledged Collateral by Banks.....	40
--	----

TABLE OF CONTENTS

NOR-LEA HOSPITAL DISTRICT

OTHER INFORMATION

Report of Independent Auditors on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	41
Schedule of Findings and Responses.....	43
Summary Schedule of Status of Prior Audit Findings	44
Exit Conference.....	45

**NOR-LEA HOSPITAL DISTRICT
OFFICIAL ROSTER
JUNE 30, 2014**

Board of Trustees

Agustin Dorado	Chairman
Pat Wise	Secretary
Julia Myers	Member
James Wright	Member
Rita Staton	Member

Principal Employee

David Shaw	Administrator
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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees and the Management of
Nor-Lea Hospital District
And
Mr. Hector Balderas
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Nor-Lea Hospital District (the "Hospital"), a political subdivision of the State of New Mexico, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the Schedule of Revenues and Expenses with Budget Comparison ("budget comparison") of the Hospital presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2014.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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.

The Board of Trustees and the Management of
Nor-Lea Hospital District
And
Mr. Hector Balderas
New Mexico State Auditor

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 business-type activities of the Hospital as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison of the Hospital for the year ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements and the budget comparison. The accompanying Schedule of Deposits and Investment Accounts and Schedule of Pledged Collateral by Banks, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Deposits and Investment Accounts and Schedule of Pledged Collateral by Banks 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 The Board of Trustees

and the Management of
Nor-Lea Hospital District
And
Mr. Hector Balderas
New Mexico State Auditor

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 Schedule of Deposits and Investment Accounts and Schedule of Pledged Collateral by Banks 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 15, 2014 on our consideration of the Hospital'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 Hospital's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 15, 2014

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Our discussion and analysis of Nor-Lea Hospital District's (Hospital) financial performances provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements.

The Lea County Commissioners closed Nor-Lea General Hospital in 1976, but the residents of the Lovington and Tatum school districts lobbied the state legislature for a hospital district seeing the need for access to healthcare in northern Lea County. They were successful in creating the new hospital district through an act of the New Mexico State Legislature. Nor-Lea Hospital District became a political subdivision of the State in 1980. The Hospital provides affordable healthcare for the residents of Lea County and the surrounding area. The Hospital provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals of the Hospital when it was established in 1980.

Financial Highlights

- The Hospital's net position increased in each of the past three years with a \$7,025,192 or 15.2% increase in 2012; a \$7,834,038 or 14.7% increase in 2013; and an \$8,066,721 or 13.2% increase in 2014.
- The Hospital reported an operating income of \$2,071,427 in 2012; an operating income of \$3,658,014 in 2013; and an operating income of \$3,007,335 in 2014.
- Net patient revenue increased in two of the past three years. The net patient revenue increased in 2012 by \$8,186,618 or 22.9%; increased in 2013 by \$7,175,495 or 16.4%; and decreased in 2014 by \$(70,170) or .14%.
- Non-operating revenue increased in 2012 by \$450,323 or 10.8%; decreased in 2013 by \$(450,741) or 9.7%; and increased in 2014 by \$512,112 or 12.3%.

Using This Annual Report

The Hospital financial statements consist of three statements: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Hospital finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Hospital resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report the Hospital's net position and changes in them. You can think of the Hospital's net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other non-financial factors, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balances during the reporting period?"

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position. The Hospital's net position increased in each of the past three years by \$7,025,192 (15.2%) in 2012; and \$7,834,038 (14.7%) in 2013 and \$8,066,721 (13.2%) in 2014 as you can see from Table 1.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Table 1: Assets, Liabilities, and Net Position

	2014	2013	2012
Assets			
Current assets	\$ 32,839,906	29,722,629	26,853,739
Long-term investments	5,775,202	7,176,129	-
Capital assets, net	38,640,020	31,114,496	32,801,067
Other non-current assets	<u>144,178</u>	<u>197,994</u>	<u>168,618</u>
Total assets	<u>77,399,306</u>	<u>68,211,248</u>	<u>59,823,424</u>
Liabilities			
Long-term debt outstanding	1,673,508	2,028,048	2,500,269
Other current liabilities	<u>6,537,142</u>	<u>5,061,265</u>	<u>4,035,258</u>
Total liabilities	<u>8,210,650</u>	<u>7,089,313</u>	<u>6,535,527</u>
Net assets			
Invested in capital assets, net of related debt	36,900,012	28,991,752	30,188,779
Restricted – expendable	175,325	141,584	103,233
Unrestricted	<u>32,113,319</u>	<u>31,988,599</u>	<u>22,995,885</u>
Total net position	<u>69,188,656</u>	<u>61,121,935</u>	<u>53,287,897</u>
Total liabilities and net position	<u>\$ 77,399,306</u>	<u>68,211,248</u>	<u>59,823,424</u>

A significant component of the change in the Hospital's assets is the increase in net patient revenue for 2012 and 2013. The net patient revenue increased by \$8,186,618 in 2012 and \$7,175,495 in 2013. In 2014 the net patient revenue remained relatively constant with only a \$70,170 decrease. The increase in net patient revenue allowed the hospital to grow the cash balance and purchase capital assets. During 2014 the Hospital did receive more funds under the new Uncompensated Care/Safety Net Care Pool Program approved by Center for Medicare and Medicaid Services (CMS) which replaced the Sole Community Dollar Program in the State of New Mexico. The hospital received net proceeds of \$1,121,571 in 2012, \$384,435 in 2013 and \$1,848,258 in 2014. Gross days in accounts receivable decreased in 2012, increased in 2013 and then decreased again in 2014. The gross days in accounts receivable were 60.6 in 2012, 67.57 in 2013 and 56.76 in 2014. The receivable/payable for estimated third party settlements relating to open cost reports has changed in each of the years 2012, 2013 and 2014. There was a net payable of \$927,867 in 2012, a net receivable of \$1,191,588 in 2013 and a net receivable of \$468,568 in 2014. Funds were expended during 2014 for the Lovington Clinic expansion project along with other capital needs for a total of \$10,038,839. Even with these capital project expenditures, cash and cash equivalents increased in 2014 by \$1,825,970.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Operating Results and Changes in the Hospital Net Position

In 2014, the Hospital's net position increased by \$8,066,721 or 13.2%, as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenues	\$ 50,987,073	51,057,243	43,881,748
Other operating revenues	<u>2,765,570</u>	<u>1,528,688</u>	<u>1,604,424</u>
Total operating revenues	<u>53,752,643</u>	<u>52,585,931</u>	<u>45,486,172</u>
Operating Expenses			
Salaries and benefits	27,601,848	24,530,172	21,711,289
Purchased services and other	9,614,564	9,503,720	8,683,663
Supplies	9,174,942	9,722,424	8,492,445
Professional fees	1,232,644	2,121,304	1,504,016
Depreciation and amortization	2,592,130	2,499,788	2,481,782
Insurance	<u>529,180</u>	<u>550,509</u>	<u>541,550</u>
Total operating expenses	<u>50,745,308</u>	<u>48,927,917</u>	<u>43,414,745</u>
Operating income	<u>3,007,335</u>	<u>3,658,014</u>	<u>2,071,427</u>
Non-operating Revenues and Expenses			
Mill levy	3,982,663	3,674,115	4,088,310
Investment income	81,827	12,316	32,842
Gain on sale of capital assets	8,124	-	-
Non-capital grants and contributions	634,777	626,349	534,435
Interest expense	<u>(19,255)</u>	<u>(136,756)</u>	<u>(28,822)</u>
Total non-operating revenues	<u>4,688,136</u>	<u>4,176,024</u>	<u>4,626,765</u>
Excess of revenues over expenses before capital grants and contributions	7,695,471	7,834,038	6,698,192
Capital grants and contributions	<u>371,250</u>	<u>-</u>	<u>327,000</u>
Increase in net position	8,066,721	7,834,038	7,025,192
Net assets, beginning of year	<u>61,121,935</u>	<u>53,287,897</u>	<u>46,262,705</u>
Net assets, end of year	<u>\$ 69,188,656</u>	<u>61,121,935</u>	<u>53,287,897</u>

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Operating Income

The first component of the overall change in the Hospital's net position is its operating income—generally, the difference between net patient service and the expenses incurred to perform those services. The Hospital reported operating income of \$2,071,427 in 2012, operating income of \$3,658,014 in 2013 and operating income of \$3,007,335 in 2014. Fiscal year end 2003 is the first year in the history of the Hospital that an operating profit was made, and this trend continued with 2008 and 2011 being the only years reporting a loss since 2003.

The primary components of operating results are:

- Net patient service revenue increased in two of the past three years. The net service patient revenue increased by \$8,186,618 (22.9%) in 2012 and by \$7,175,495 (16.4%) in 2013 while only showing a slight decrease in 2014 of \$70,170 (.14%). This decrease was due, in part, to the conversion of the Hospital District's clinics to an EMR system (Electronic Medical Record). The change from paper documentation resulted in some initial decreases in volume as the physicians learned to use the system. This will make the physicians more productive and will help to increase patient satisfaction in future years. The physicians began using this electronic documentation for visits in the clinics in preparation for the move to the new Lovington Clinic which is under construction and has an estimated move in date of December 2014.
- In 2011, one practitioner was added to the Lovington Medical Clinic and one mid-level practitioner was added to an evening walk-in clinic to help with the patients who need same day appointments but cannot get in with their regular primary care physician. The evening walk-in clinic was opened in May 2011. A cardiologist and a gastroenterologist were added to the Professional Physicians Center which continues to offer much needed specialties to Lea County and Southeastern New Mexico. In 2011, as part of the completion of the new outpatient construction, several new services were added that had initial start up cost in supplies and staffing. These new services include nuclear medicine; cardiac services such as echoes and stress testing; outpatient physical therapy and occupational therapy; wound care services and gastroenterology services including surgical procedures. During 2011, operating revenues increased by 18.5% and operating expenses increased by 23.7%, resulting in an operating loss for the year. The increase in operating expenses is primarily related to a 33.4% increase in salaries and benefits, 18.5% increase in supplies, 39.5% increase in purchased services, and a 61.5% increase in depreciation and amortization costs. In 2012, the hospital implemented a charge master increase that averaged approximately 10.43% annualized keeping the hospital charges at the 75th percentile nationally. The last increase was done July 2009. With the completion of the endoscopy area of the hospital and the addition of an urologist to the

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Professional Physicians Center, significant growth (118.3%) was seen in the operating room and endoscopy suite procedures. There was also growth in the Neurology procedures (42.0%), the cardiac procedures (78.6%), the physical rehab procedures (86.2%), the hospital based clinics including the Professional Physicians Center and the Evening Clinic (139.8%). In 2013, the hospital added an ENT to the Professional Physicians Center who not only had clinic visits but performed surgeries in the OR as well. The operating room and endoscopy suites continued to see growth with a 15.3% increase and a 41.2% increase respectively. In 2014 the operating procedures continued to increase as the urologist and ENT grew their practices. The chemotherapy/outpatient infusion department experienced a 20% increase in volume during 2014. During the year, the visiting oncologists expanded the number of days they were holding clinics from 1 provider once every two weeks to two providers once every week.

- The Hospital became a sole community hospital beginning in 2003. As a sole community hospital, the Hospital receives additional state funding in addition to the county indigent dollars which help to offset uncompensated care. The uncompensated care is reflected in the net patient revenues as an allowance. The additional operating revenue generated was \$1,121,571 in 2012 and \$384,435 in 2013. This program was replaced in 2014 by the Uncompensated Care/Safety Net Care Pool Program approved by CMS. The additional operating revenue generated in 2014 was \$1,848,258.
- The Hospital became a critical access hospital as of August 1, 2002 which allows the Hospital to be cost-based reimbursed for Medicare patients. Medicare accounted for 39.7% of the gross revenue in 2012, 39.08% in 2013, and 36.38% in 2014.

Non-operating Revenues and Expenses

Non-operating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. A mill levy, approved by the voters of the Lovington and Tatum school districts, expires on various dates. A 1.5 mill was approved in 2013 for 4 years and a 2.5 mill was approved in 2011 for 4 years. The next mill levy election is in 2015. Mill levy property taxes are levied based on the assessed value of the property in the two school districts as well as on the value of oil & gas production and equipment. Mill levy property taxes are levied on November 1st and are due in two payments by November 10th and April 10th. The mill levy is a vital source of revenue for the Hospital because it not only funds operations when needed, but it also funds capital improvements in an ever changing healthcare environment. Without the necessary improvements to the Hospital facilities, the quality of patient care could be affected. The oil and gas amount of the mill levy, which was 76.6% in 2012, 72.1% in 2013, and 69.1% in 2014, can fluctuate from year to year depending upon the current economy.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Grants, Contributions and Endowments

Historically, the Hospital has not received significant capital grants and contributions but is becoming more active in the pursuit of additional funding. During 2011, the Hospital received various grants including: trauma grants totaling \$143,525, a Small Hospital Improvement Grant of \$7,817, diabetic supply funds of \$55,670, school based clinic funds of \$75,000, and other grants of \$6,173. During 2012, the Hospital received the following grants: trauma grants totaling \$65,156, a Small Hospital Improvement Grant of \$7,769, diabetic supply funds of \$18,871, school based clinic funds of \$75,000, and HRSA grant funds of \$47,654. During 2013, the Hospital received the following grants: trauma grants totaling \$124,206, diabetic supply funds of \$36,520, school based clinic funds of \$75,000, SHIP grant funds of \$7,792 and HRSA grant funds of \$33,596. During 2014, the Hospital received the following grant funds: trauma grants totaling \$155,407, asthma grant funds of \$3,625, diabetic supply funds of \$57,757, SHIP grant funds of \$7,503 and school based clinic funds of \$75,000.

The Hospital also receives federal grant funding through the state in the form of a RHPCA Grant which is to supplement the rural health clinics for the indigent and uninsured. During 2012, the Hospital received \$225,000 in RHPCA Grant funds, in 2013 the Hospital received \$240,500 and in 2014 the Hospital received \$240,500 in RHPCA Grant funds.

The Hospital established a foundation through its management company's foundation, Covenant Health System Foundation. All funds generated through the Nor-Lea Foundation were used solely by Nor-Lea Hospital District. The Nor-Lea Foundation account was reported as a separate fund by the Covenant Health System Foundation. All decisions regarding the funds generated by Nor-Lea Foundation were made by the Hospital and its Board. The Nor-Lea Foundation applied for tax exempt status under section 501(c)(3) of the Internal Revenue Code and received their determination effective January 19, 2012. The Foundation was determined to be a Type I supporting organization under section 509 (a)(3). The Foundation filed their first 990 report as of June 30, 2012 separate from the Covenant Health System Foundation. As a supporting organization, the activity of the Nor-Lea Foundation and its ending cash balance are combined in the audited financial statements. During the years ended June 30, 2012, 2013 and 2014, the Hospital received net donations (restricted and unrestricted) of \$72,123, \$82,024 and \$85,675 respectively.

The Hospital Cash Flows

Changes in the Hospital cash flows are consistent with changes in operating losses and non-operating revenues and expenses, discussed earlier.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Capital Asset and Debt Administration

Capital Assets

In 2008, the Hospital began the architectural design to a planned expansion to the new hospital section, incurring fees of \$307,118 through 2009. The project included a new chemotherapy area, a new dietary area, a new lab area, a new sleep study area and a new respiratory area. It also included space for an outpatient physical rehab, miscellaneous cardiac ancillary services, several hospital based physician clinics, an in house MRI and financial/administrative offices. The majority of the project was completed during December 2010 which added approximately 30,000 square feet to the existing hospital square footage. All departments took part in the development of the final architectural designs. The new expansion was paid for out of excess cash reserves. As of 2011, the Hospital had expended a total of \$16,642,650 on the construction project, in which \$265,448 was still construction in progress related to the unfinished gastroenterology suite and physician clinic. In 2012, the final completion of the expansion project was realized. The total expended was \$20,523,889 with \$2,893,466 expended during 2010, \$13,442,066 expended during 2011, \$3,887,757 expended during 2012 and a small refund of \$6,518 received during 2013.

The Hospital District began the design of a new Lovington Clinic expansion project during FYE 2013 and expended \$292,612 in architect design and master planning fees during 2013. The new square footage to be added will be approximately 50,000 square feet and will be occupied by the Lovington Clinic providers and support staff as well as the new expanded Chemotherapy/Outpatient Infusion department. The vacated areas within the hospital after the move to the new area will also be remodeled to relocate services to create better patient flow for the specialists, expand the laboratory, and expand human resources to include new education conference rooms. During 2014 the Hospital District expended an additional \$8,927,660 to bring the total to \$9,220,272 through June 30, 2014.

At the end of 2014, the Hospital had \$38,640,020 invested in capital assets, net of accumulated depreciation; see Note 6 to the financial statements. The Hospital purchased new equipment in the amount of \$1,216,099, spent \$35,782 in buildings and improvements and spent \$8,927,660 for construction in progress. The Hospital District sold 7 of their 20 acres for \$71,000. The original cost was \$62,876 which resulted in a gain of \$8,124 reported in the financials as non-operating revenue. The construction in progress relates to the new Lovington Clinic expansion (scheduled for completion in December 2014) and the hospital remodel of existing spaces to be vacated by the move to the new clinic.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

At the end of 2013, the Hospital had \$31,114,496 invested in capital assets, net of accumulated depreciation. The Hospital purchased new equipment in the amount of \$524,990, spent \$292,612 in buildings and improvements/construction in progress and received a refund of overpayment for buildings and improvements in the amount of \$6,518. The construction in progress relates to design and architect fees for the new Lovington Clinic expansion and hospital remodel.

At the end of 2012, the Hospital had \$32,801,067 invested in capital assets, net of accumulated depreciation. The Hospital purchased new equipment in the amount of \$883,736 and spent \$3,887,757 in buildings and improvements.

Debt

The Hospital Board authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2003 in the amount of \$4,000,000. The Hospital received funding in an Escrow account and entered into a credit agreement with Wells Fargo for \$4,000,000 in May 2003. The Hospital Board also authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2004 in the amount of \$2,000,000. The Hospital received funding in an Escrow account and entered into a credit agreement with Wells Fargo for \$2,000,000 in May 2004. These Bonds do not constitute general obligation debt of the Hospital, and are payable solely out of the net revenues derived from the operations of the Hospital and its facilities. Scheduled principal payments through 2014 have brought the outstanding balance on the 2003 bonds to \$0 – Paid in Full and the outstanding balance on the 2004 bonds to \$1,600,000. Also, the Hospital had outstanding debt associated with capital leases. The outstanding capital lease debt was \$212,288 in 2012, \$122,744 in 2013 and \$140,008 in 2014.

Other Economic Factors

In the community of Hobbs, New Mexico, approximately 30 miles south of Lovington, a major provider clinic was closed by Covenant Health System in May 2003. Nor-Lea Hospital District has since seen significant increases in patient revenues in its Lovington Clinic, a rural health clinic. As of June 2006, the Hospital had three clinics, located in Lovington, Tatum and Hobbs, which had 5 mid-level practitioners and 5 physicians. In 2007, the Hospital added the school-based clinic, and in 2008, the Hospital added an additional physician to its clinics as well as a midlevel practitioner. During 2009, the Hospital added one more physician and an additional mid-level practitioner to its clinic staff, for a total of 7 mid-level practitioners and 7 physicians. The total for 2010 was 7 mid-level practitioners and 9 physicians. During 2010, the Hospital added an additional physician to complete the space in the Lovington Clinic. The District also established an additional clinic to meet the demand for specialists in Lea County. The first physician hired for the Professional Physicians Center was a neurologist in January 2010, and during 2011, a cardiologist and a gastroenterologist were hired by the District. During 2011, the

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

Hospital added one more physician to the Lovington Clinic after moving a midlevel to the new wound care clinic. A midlevel practitioner was also added to the new evening walk-in clinic. The District had 12 physicians and 8 mid-level practitioners as of 2011. At the end of 2012, the District had 13 physicians and 8 mid-level practitioners; however, during 2012, one of the physicians in the Lovington Clinic left and the position was temporarily filled by a contract physician with recruitment for a full time physician continuing. An urologist was hired for the Professional Physicians Center in July 2011, as well. At the end of 2013, the District had 14 physicians and 10 mid-level practitioners. This included a newly created employed physician position in the ER and an ENT in the Professional Physicians Center. Two mid-level practitioners were hired in the Lovington Clinic to replace the one lost physician in that clinic. At the end of 2014, the District had 15 physicians and 9 mid-level practitioners. This included an additional physician in the Lovington Clinic. The mid-level practitioner in the Tatum Clinic retired, and the position was still open at the end of the fiscal year which would bring the total mid-level positions back to the 10 as of June 30, 2014.

Budgetary Analysis

The operating and capital budget is created through the cooperative efforts of all department managers, the CEO/Administrator and the CFO. The Hospital's Board reviews and approves the final budget before it is sent to the Department of Finance and Administration of the State of New Mexico (DFA) for approval. During the year, the Hospital Board may deem it necessary to amend the original budget based on increased services provided or other new changes in the operations of the Hospital. The same procedure is followed to develop the amended budget with the managers and administration working together. Once the Hospital Board approves the amended budget, it is sent to the DFA for final approval. During 2014, the Hospital developed an original budget with gross patient revenue of \$133,500,729 and operating expenses of \$52,466,526. The Hospital submitted an amended budget that was approved by the Board November 19, 2013 and by the DFA December 12, 2013. The amended budget has gross patient revenue of \$133,665,729 and operating expenses of \$53,168,839.

Contacting the Hospital Financial Management

The financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital CEO or CFO, at Nor-Lea Hospital District, 1600 N. Main Street, Lovington, New Mexico 88260.

NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,182,999	14,357,029
Short-term investments	6,518,225	5,073,570
Short-term investments - restricted	175,325	141,584
Patient accounts receivable, net of estimated uncollectibles of \$8,302,080 in 2014 and \$8,374,561 in 2013	6,262,728	7,129,778
Other receivables	2,272,424	972,621
Estimated third-party payor settlements	468,568	1,191,588
Inventories and prepaid expenses	959,637	856,459
Total current assets	32,839,906	29,722,629
Noncurrent Assets		
Long-term investments	5,775,202	7,176,129
Capital assets, net	38,640,020	31,114,496
Physician receivables	140,218	193,043
Goodwill and intangibles, net of accumulated amortization of \$84,015 in 2014 and \$83,024 in 2013	3,960	4,951
Total assets	\$ 77,399,306	68,211,248
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 3,986,343	3,003,445
Accrued liabilities	1,213,703	997,389
Current portion of capital leases	66,500	94,696
Compensated absences	1,270,596	965,735
Total current liabilities	6,537,142	5,061,265
Noncurrent Liabilities		
Long-term debt	1,600,000	2,000,000
Capital leases, net of current portion	73,508	28,048
Total liabilities	8,210,650	7,089,313
Net Position		
Net investment in capital assets	36,900,012	28,991,752
Restricted - expendable	175,325	141,584
Unrestricted	32,113,319	31,988,599
Total net position	69,188,656	61,121,935
Total liabilities and net position	\$ 77,399,306	68,211,248

See Notes to Financial Statements.

**NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013**

	2014	2013
Operating Revenue		
Net patient service revenue, net of provision for bad debts of \$10,693,030 in 2014 and \$9,363,094 in 2013	\$ 50,987,073	51,057,243
Other revenue	2,765,570	1,528,688
	<hr/>	<hr/>
Total operating revenue	53,752,643	52,585,931
	<hr/>	<hr/>
Operating Expenses		
Salaries and wages	20,109,203	17,836,324
Supplies	9,174,942	9,722,424
Purchased services	6,306,031	6,422,099
Employee benefits	7,492,645	6,693,848
Depreciation and amortization	2,592,130	2,499,788
Professional fees	1,232,644	2,121,304
Other	1,753,419	1,745,556
Leases and rentals	1,043,165	948,067
Insurance	529,180	550,509
Utilities	511,949	387,998
	<hr/>	<hr/>
Total operating expenses	50,745,308	48,927,917
	<hr/>	<hr/>
Operating income	3,007,335	3,658,014
	<hr/>	<hr/>
Nonoperating revenues (expenses)		
Mill levy	3,982,663	3,674,115
Investment income	81,827	12,316
Interest expense	(19,255)	(136,756)
Noncapital grants, contributions and other	642,901	626,349
	<hr/>	<hr/>
Total nonoperating revenues	4,688,136	4,176,024
	<hr/>	<hr/>
Excess of revenues over expenses before capital grants and contributions	7,695,471	7,834,038
	<hr/>	<hr/>
Capital grants and contributions	371,250	-
	<hr/>	<hr/>
Increase in net position	8,066,721	7,834,038
	<hr/>	<hr/>
Net position, beginning of year	61,121,935	53,287,897
	<hr/>	<hr/>
Net position, end of year	\$ 69,188,656	61,121,935
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

**NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 52,577,143	47,263,559
Payments to suppliers and contractors	(19,671,610)	(20,551,842)
Payments to and on behalf of employees	(27,080,673)	(24,085,109)
Receipts from sole community provider funds	1,848,258	384,435
Other operating receipts	(390,615)	1,677,073
Net cash provided by operating activities	<u>7,282,503</u>	<u>4,688,116</u>
Cash Flows From Noncapital Financing Activities		
Mill levy support	3,982,663	3,756,727
Noncapital grants and contributions	642,901	602,715
Net cash provided by noncapital financing activities	<u>4,625,564</u>	<u>4,359,442</u>
Cash Flows From Capital and Related Financing Activities		
Payments on long-term debt	(400,000)	(400,000)
Interest paid on long-term debt	(19,255)	(136,756)
Payments on capital leases	(123,438)	(113,937)
Capital expenditures	(10,038,839)	(786,690)
Proceeds from sale of capital assets	71,002	-
Net cash used in capital and related financing activities	<u>(10,139,280)</u>	<u>(1,437,383)</u>
Cash Flows From Investing Activities		
Increase in restricted investments	(33,741)	(38,351)
Net receipts (payments) on physician receivables	52,825	(31,510)
Purchase of investments, net	(43,728)	(71,493)
Investment income	81,827	12,316
Net cash used in investing activities	<u>57,183</u>	<u>(129,038)</u>
Increase in cash and cash equivalents	1,825,970	7,481,137
Cash and cash equivalents, beginning of year	<u>14,357,029</u>	<u>6,875,892</u>
Cash and cash equivalents, end of year	<u>\$ 16,182,999</u>	<u>14,357,029</u>

See Notes to Financial Statements.

**NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2014 and 2013**

	2014	2013
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,007,335	3,658,014
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,592,130	2,499,788
Provision for bad debts	10,693,030	9,363,094
Gain on sale of capital assets	(8,124)	-
Changes in current assets and liabilities		
Patient accounts receivable	(9,825,980)	(11,037,323)
Other receivables	(1,299,803)	532,820
Inventories and prepaid expenses	(103,178)	(180,019)
Accounts payable	982,898	1,526,134
Accrued liabilities	216,314	360,727
Estimated third-party payor settlements	723,020	(2,119,455)
Compensated absences	304,861	84,336
	<u>\$ 7,282,503</u>	<u>4,688,116</u>
Net cash provided by operating activities		
Noncash Investing, Capital and Financing Activities		
Additions to equipment under capital leases	<u>\$ 140,702</u>	<u>24,394</u>
Capitalization of interest	<u>\$ 98,000</u>	<u>-</u>

See Notes to Financial Statements.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 1. DESCRIPTION OF REPORTING ENTITY

Reporting Entity. Nor-Lea Hospital District (Hospital), a political subdivision of the State of New Mexico, is a 25-bed critical access hospital facility located in Lovington, Lea County, New Mexico, that operates two rural outpatient clinics, one freestanding clinic, a school-based clinic, a dental clinic, and a durable medical equipment division. The Hospital is controlled by Nor-Lea Hospital District (District), which has no assets, liabilities, revenues or expenses. The Hospital provides health care services to patients in the surrounding southeast New Mexico region.

The accompanying financial statements present the Hospital and its component unit, the Nor-Lea Foundation (Foundation), an entity for which the Hospital is considered to be financially accountable. The Foundation, although a legally separate entity, is in substance, part of the Hospital's operations.

Blended Component Unit. The Foundation's mission is to provide a healing touch, generous hand, caring services and community wellness to Nor-Lea Hospital District and its patients, supporters and community. Nor-Lea Foundation will always exist to assist Nor-Lea Hospital District in the provision of quality, compassionate healthcare in order to raise the standard of care and wellness in Lea County and the surrounding communities. Nor-Lea Foundation accepts and manages gifts from individuals and corporations in order to continue this exemplary healthcare. The Foundation is reported as part of the Hospital's operations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are the representation of the Hospital's management who are responsible for their integrity and objectivity. The financial statements of the Hospital conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The summary of significant accounting policies of the Hospital is presented to assist in the understanding of the Hospital's financial statements. The Hospital's accounting policies are described below.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Fund Accounting. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and Cash Equivalents. Cash and cash equivalents include cash as well as investments with an original maturity of three months or less.

Inventories. Inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of medical, surgical, pharmaceutical, dietary and other supplies held for use in operations and are recorded as expenses when consumed rather than when purchased.

Patient Accounts Receivable. Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Estimated provisions for doubtful accounts are recorded to the extent it is probable a portion or all of a particular account will not be collected. The Hospital determines if patient accounts receivable are past-due based on the date the service was performed, and the Hospital does not charge interest on past-due accounts.

Capital Assets. The Hospital capitalizes property and equipment costing \$5,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated property and equipment are recorded at fair market value at date of donation. Depreciation is recorded using the straight-line method over the following estimated useful lives:

	Years
Land improvements	5 - 15
Building and improvements	5 - 40
Equipment	3 - 15

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs of Borrowing. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Construction activity on the Hospital expansion project began in 2014. Although the construction was in cash, generally accepted accounting principles required interest capitalization using the rates of any outstanding borrowings and, accordingly, interest costs of \$98,000 and \$0 for 2014 and 2013, respectively, have been capitalized.

Mill Levy. The Hospital is the recipient of mill levy taxes approved by the voters of Lea County every four years. The mill levy consists of a 1.5 mill levy, scheduled to expire on December 31, 2017, and a 2.5 mill levy, expired on December 31, 2015. The Hospital recorded mill levy revenues of \$3,982,663 in 2014 and \$3,674,115 in 2013. Included in other receivables is \$465,738 and \$446,658 in mill levy receivables. Mill levy revenues are used in accordance with the provisions of the property tax referendum.

The Hospital receives mill levy taxes from the Treasurer of Lea County. The County serves as the intermediary collecting agency and remits the Hospital's share of mill levy tax collections. The Hospital does not maintain detailed records of mill levy taxes receivable by the individual taxpayer.

Mill levy property taxes are levied on November 1, based on the assessed value of property as listed on the previous January 1, and are due in two payments by November 10 and April 10. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent. The Hospital recognizes revenue from mill levy property taxes in the period for which they are levied.

Grants and Contributions. From time to time, the Hospital receives grants from the State of New Mexico as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Hospital receives federal grant awards annually related to the Rural Primary Health Care Act (Act). The Act requires the Hospital, through its Lovington and Tatum clinics, to provide primary care health services to surrounding rural areas. The revenue recognized is based on allowable costs incurred. The Hospital recognized and expended \$240,500 and \$240,500 in 2014 and 2013, respectively, in federal grant awards. These amounts are included in noncapital grants and contributions in the accompanying statements of revenues, expenses, and changes in net position.

Restricted Resources. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Position. The position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. As of June 30, 2014 and 2013, the Hospital's restricted expendable net position was comprised of donations and funds held by the Nor-Lea Foundation in the amount of \$175,325 and \$141,584, respectively. Unrestricted net position are remaining net position that do not meet the definition of net investment in capital assets net of related debt or restricted.

Operating Revenues and Expenses. The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity.

Non-exchange revenues, including taxes, grants, state appropriations and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs and investment losses.

Compensated Absences. Vacation pay is accrued for employees based on hours paid. Accrual rates of 25 to 35 days per year are based on years of service. Vacation hours vest to the employee as they are earned. As of June 30, 2014 and 2013, the Hospital had accrued \$1,270,596 and \$965,735 for compensated absences, respectively.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting. Prior to the beginning of each fiscal year, the budget for the Hospital is prepared on the accrual basis by the Chief Financial Officer and is presented to the Hospital's Board of Trustees (Board) for review and approval. Upon Board approval, the budget is sent to the Department of Finance and Administration of the State of New Mexico (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when net position for the prior year is known. Expenditures legally cannot exceed the total budget. Any budget amendments are first reviewed and approved by the Board and then sent to the DFA for state approval. The Board is authorized to transfer budgeted amounts between the departments; however, any revisions that alter the total expenditures must be approved by the DFA. As of June 30, 2014 and 2013, the Hospital was in compliance with these requirements.

Investments in Debt and Equity Securities. Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized on investments in debt and equity securities are included in non-operating revenue when earned.

Risk Management. The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in 2014 and 2013.

Changes in Accounting Policies and Statements. Effective July 1, 2012, the Hospital adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position. This statement had minimal impact on the Hospital's financial statements or related accounting and financial reporting. The primary effects of implementing this statement was to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2014 and 2013 the Hospital had no items meeting the criteria of "deferred inflows" or "deferred outflows."

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is required to be implemented effective July 1, 2013, and adopted by the Hospital in the current fiscal year. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. There was no material impact on the Hospital's financial statements as a result of the adoption of this statement.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposit and Investment Policies. State statutes authorized the investment of the Hospital's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The Hospital is also allowed to invest in United States Government obligations.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Hospital's district. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than 100% of the asked 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.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Hospital for at least one half of the amount on deposit with the institution, and also require repurchase agreements to be collateralized by the securities underlying an overnight repurchase agreement, or a joint safekeeping receipt be issued to the Hospital for at

**NOR-LEA HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014 and 2013**

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

least 102% of the fair value of the securities underlying overnight repurchase accounts invested with the institution. The Hospital's investments are subject to custodial credit risk if the investments are uninsured and collateralized by securities held by the investment counterparty in the name of the counterparty but not in the name of the Hospital. As of June 30, 2014 and 2013, the Hospital's bank deposits were not exposed to custodial credit risk as all deposits were collateralized by securities held in the name of the Hospital.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital does not have an investment policy for custodial credit risk. The Hospital's investments with Lea County State Bank and Wells Fargo Brokerage are registered in the name of the Hospital and therefore are not subject to custodial credit risk. At June 30, 2014 and 2013, the Hospital's investment in the New MexiGROW LGIP was exposed to custodial credit risk in the amounts of \$388,468 and \$388,058, respectively.

Credit Risk. The New MexiGROW Local Government Investment Pool's (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not 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 Section 6-10-10 I through 6-10-10P and Section 6-10-10.1 A and E, NMSA 1978. The LGIP does not have unit shares.

Per Section 6-10-10.1 F, 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.

As of June 30, 2014 and 2013, the Hospital's investments were rated as follows:

LGIP	AAAm	(S&P)
Federal Home Loan Corporation	AA+	(S&P)
Federal National Mortgage Association	AA+	(S&P)
Federal Farm Credit Banks Bond	AA+	(S&P)
Freddie Mac	AA+	(S&P)

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk. The Hospital does not have a formal policy limiting investment maturities to manage its exposure to fair value losses from increasing interest rates. The Hospital's deposits and investments at June 30, 2014 and 2013 included the following:

<u>Deposits and Investments</u>	<u>Maturities</u>	<u>Fair Value</u>	
		2014	2013
Items not subject to interest rate risk:			
Bank deposits	N/A	\$ 16,180,474	14,291,144
Money market	Daily	247,168	77,080
Petty cash	N/A	2,525	2,750
Items subject to interest rate risk:			
Certificates of Deposit	Ranges from 9/12/14 to 6/20/16	7,530,339	4,332,780
Federal Home Loan Corporation	9/30/16	1,048,582	900,990
Federal National Mortgage Assoc.		-	2,469,865
Federal Farm Credit Banks Bond	10/15/15	999,840	2,986,668
Freddie Mac	Ranges from 9/25/15 To 12/30/16	2,254,355	1,298,977
LGIP	***	388,468	388,058
		<u>\$ 28,651,751</u>	<u>26,748,312</u>

***The LGIP's weighted average maturity at June 30, 2014 and 2013 is 48.6 and 59 days, respectively, which is a key determinant of the tolerance of the LGIP's investments to increases in interest rates.

Concentration of Credit Risk. The Hospital places no limit on the amount it may invest in any one issuer.

NOTE 4. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net amounts realizable from patient, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 4. NET PATIENT SERVICE REVENUE (CONTINUED)

A summary of the payment arrangements with major third-party payors follows:

Medicare - Effective August 2002, the Hospital qualified as a "Critical Access Hospital" under the Medicare system. As a designated Critical Access Hospital the Hospital is reimbursed for inpatient, inpatient non-acute services, and certain outpatient services related to Medicare beneficiaries based on a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid - Similar to Medicare, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 14%, respectively, of the Hospital's patient revenue for the year ended June 30, 2014 and approximately 39% and 11%, respectively, of the Hospital's patient revenue for the year ended June 30, 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Medicare and Medicaid cost reports for fiscal years 2012 through 2014 have not been final settled. In management's opinion, estimated Medicare and Medicaid settlements accrued for at June 30, 2014 are adequate to provide for the settlement of all open cost reports.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and cost reimbursement methodology.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 5. RESTRICTED NET POSITION

Restricted, expendable net position are restricted according to donor or grantor purpose restrictions. As of June 30, 2014 and 2013, these restrictions are as follows:

	2014	2013
Investments – restricted for outpatient chemotherapy and cardiovascular rehabilitation services	<u>\$ 175,325</u>	<u>141,584</u>

NOTE 6. CAPITAL ASSETS

The following summarizes capital asset activity for the years ended June 30, 2014 and 2013:

	Balance 2013	Additions	Deletions	Balance 2014
Non-depreciable assets				
Land	\$ 212,647	-	(62,876)	149,771
Construction in progress	292,612	8,927,660	-	9,220,272
	<u>505,259</u>	<u>8,927,660</u>	<u>(62,876)</u>	9,370,043
Depreciable assets				
Land improvements	28,660	-	-	28,660
Building and improvements	37,092,095	35,782	-	37,127,877
Equipment	12,841,895	1,216,099	-	14,057,994
	<u>49,962,650</u>	<u>1,251,881</u>	<u>-</u>	51,214,531
Accumulated depreciation				
Land improvements	(28,660)	-	-	(28,660)
Building and improvements	(9,329,847)	(1,540,606)	-	(10,870,453)
Equipment	(9,994,906)	(1,050,535)	-	(11,045,441)
	<u>(19,353,413)</u>	<u>(2,591,141)</u>	<u>-</u>	(21,944,554)
Capital assets, net	<u>\$ 31,114,496</u>	<u>7,588,400</u>	<u>(62,876)</u>	38,640,020

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Balance 2012	Additions	Deletions	Balance 2013
Non-depreciable assets				
Land	\$ 212,647	-	-	212,647
Construction in progress	-	292,612	-	292,612
	<u>212,647</u>	<u>292,612</u>	<u>-</u>	<u>505,259</u>
Depreciable assets				
Land improvements	28,660	-	-	28,660
Building and improvements	37,098,614	-	(6,519)	37,092,095
Equipment	12,316,905	524,990	-	12,841,895
	<u>49,444,179</u>	<u>524,990</u>	<u>(6,519)</u>	<u>49,962,650</u>
Accumulated depreciation				
Land improvements	(28,660)	-	-	(28,660)
Building and improvements	(7,787,982)	(1,541,865)	-	(9,329,847)
Equipment	(9,039,117)	(955,789)	-	(9,994,906)
	<u>(16,855,759)</u>	<u>(2,497,654)</u>	<u>-</u>	<u>(19,353,413)</u>
Capital assets, net	<u>\$ 32,801,067</u>	<u>(1,680,052)</u>	<u>(6,519)</u>	<u>31,114,496</u>

The Hospital began the design of a new Lovington Clinic expansion project during fiscal year 2013 and the project is scheduled for completion in fiscal year 2015. Depreciation expense, including amortization for equipment held under capital leases for the years ended June 30, 2014 and 2013 was \$2,591,141 and \$2,497,654, respectively. The Hospital acquired equipment under capital leases at a cost of \$140,702 and \$24,393 for the years ended June 30, 2014 and 2013, respectively.

Amortization expense for leased equipment was \$90,270 and \$114,418 for the years ended June 30, 2014 and 2013, respectively, and amortized cost was \$132,481 and \$82,050 for the years ended June 30, 2014 and 2013, respectively.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 7. LONG-TERM DEBT AND COMPENSATED ABSENCES

The following summarizes long-term debt activity for the years ended June 30, 2014 and 2013:

	Balance 2013	Additions	Reductions	Balance 2014	Amounts Due Within One Year
Bonds Payable					
2004 Hospital	\$ 2,000,000		(400,000)	1,600,000	-
Total Long-term debt	2,000,000		(400,000)	1,600,000	
Compensated absences	965,735	2,217,064	(1,912,203)	1,270,596	1,270,596
Capital lease obligations	122,744	140,702	(123,438)	140,008	66,500
Total	\$ 3,088,479	2,357,766	(2,435,641)	3,010,604	1,337,096

	Balance 2012	Additions	Reductions	Balance 2013	Amounts Due Within One Year
Bonds Payable					
2004 Hospital	\$ 2,000,000	-	-	2,000,000	-
Revenue Bond					
2003 Hospital					
Revenue Bond	400,000	-	(400,000)	-	-
Total Long-term debt	2,400,000	-	(400,000)	2,000,000	-
Compensated absences	881,399	1,836,014	(1,751,678)	965,735	965,735
Capital lease obligations	212,288	24,394	(113,938)	122,744	94,696
Total	\$ 3,493,687	1,860,408	(2,265,616)	3,088,479	1,060,431

Payments to employees for compensated absences are included in operating expenses on the Statement of Revenues, Expenses and Changes in Net Position.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 7. LONG-TERM DEBT AND COMPENSATED ABSENCES (CONTINUED)

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2014 and 2013 follow:

2004 Hospital Revenue Bond. On March 17, 2004, the Board authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2004 (2004 Bond), in the principal amount of \$2,000,000. Nor-Lea entered into a credit agreement in the amount of \$2,000,000 with Wells Fargo, dated May 25, 2004. Proceeds from the 2004 Bond were used to finance, in part, the cost of equipping, furnishing, remodeling and renovating the facilities of the Hospital. At June 30, 2014 and 2013, the balance remaining on the 2004 Bond was \$1,600,000 and \$2,000,000 respectively.

The 2004 Bond bears interest at a fixed rate of 4.90%, which is payable on January 1 and July 1 of each year through July 1, 2018. Principal is payable on July 1 of each year through July 1, 2018. As of June 30, 2014, Hospital paid July 1, 2014 payments; accordingly, no amounts are reported as current obligation in the accompanying financial statements. The 2004 Bond does not constitute indebtedness or a debt of the Hospital within the meaning of any constitutional or statutory provision or limitation and shall not be considered or held to be a general obligation of the Hospital. The 2004 Bond is payable and collectible solely out of the net revenues derived from the operation of the Hospital and its facilities, which is exclusive of mill levy or tax proceeds. The 2004 Bond is tax-exempt under Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

2003 Hospital Revenue Bond. On April 16, 2003, the Board authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2003 (2003 Bond), in the principal amount of \$4,000,000. Nor-Lea entered into a credit agreement in the amount of \$4,000,000 with Wells Fargo, dated May 22, 2003. Proceeds from the 2003 Bond were used to finance, in part, the cost of equipping, furnishing, remodeling and renovating the facilities of the Hospital. 2003 Bond were paid off during 2013.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 7. LONG-TERM DEBT AND COMPENSATED ABSENCES (CONTINUED)

The 2003 Bond bears interest at a fixed rate of 4.75%, which is payable on January 1 and July 1 of each year through July 1, 2013. Principal is payable on July 1 of each year through July 1, 2013. As of June 30, 2013, the Hospital paid the July 1 payments; accordingly, no amounts are reported as current obligations in the accompanying financial statements. The 2003 Bond does not constitute indebtedness or a debt of the Hospital within the meaning of any constitutional or statutory provision or limitation and shall not be considered or held to be a general obligation of the Hospital. The 2003 Bond is payable and collectible solely out of the net revenues derived from the operation of the Hospital and its facilities, which is exclusive of mill levy or tax proceeds. The 2003 Bond is tax-exempt under Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

Under the terms of the 2003 and 2004 Bond Indentures, the Hospital is required to maintain certain deposits. Such deposits, if required, are included with restricted cash and investments on the Statements of Net Position as of June 30, 2014 and 2013. The 2003 and 2004 Bond Indentures also requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding. As of June 30, 2014, the Hospital was in compliance with these requirements.

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Year ending June 30,	Principal	Interest
2015	\$ 66,500	117,761
2016	457,292	101,517
2017	416,216	68,115
2018	400,000	19,600
2019	<u>400,000</u>	<u>-</u>
	<u>\$ 1,740,008</u>	<u>306,993</u>

The Hospital incurred \$117,255 and \$136,756 in interest costs related to debt and capital leases during the years ended June 30, 2014 and 2013, respectively.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 8. EMPLOYEE RETIREMENT PLAN

The Nor-Lea Hospital District 403(b) defined contribution employee retirement plan (Plan) covers substantially all employees who have completed one year of service and have attained the age of 21. The Plan provides for Hospital contributions of 100% of eligible employees' deferred compensation up to 4% of such employees' compensation. Hospital contributions to the Plan totaled \$442,111 in 2014 and \$410,584 in 2013 and are fully vested when made. Employees may also elect to make contributions to the Plan.

NOTE 9. OTHER RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Other receivables, accounts payable and accrued expenses reported as current assets and liabilities by the Hospital at June 30, 2014 and 2013 consisted of these amounts:

	2014	2013
Other receivables		
Mill levy receivable	\$ 465,738	446,658
Grants receivable	104,286	72,159
Receivable from detention facility clinic	-	154,018
Sole community provider funding and other	1,702,400	300,130
Miscellaneous receivables	-	(344)
	<u>2,272,424</u>	<u>972,621</u>
Total other receivables	\$ 2,272,424	972,621
Accounts payable and accrued expenses		
Payable to suppliers	\$ 3,986,343	3,003,445
Payable to employees (including payroll taxes)	1,213,703	997,389
	<u>5,200,046</u>	<u>4,000,834</u>
Total accounts payable and accrued expenses	\$ 5,200,046	4,000,834

Other receivables are considered fully collectible and therefore no provision for bad debt has been recorded for these amounts.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 10. COMMITMENTS AND CONTINGENCIES

Compliance with Laws and Regulations. The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse laws and regulations as well as other applicable government regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Insurance. Effective June 1, 2006, pursuant to the Federal Risk Retention Act and under the captive insurance Hospital provisions of Vermont law, the Hospital is insured under and is a member subscriber in the Yellowstone Insurance Exchange, Risk Retention Group (Yellowstone) for the purpose of providing insurance for professional and general liability coverage. The Hospital pays member premiums in return for insurance coverage. The Hospital maintains claims-made commercial insurance related to professional and general liability risks. The policy expired on December 31, 2013 and was renewed through December 31, 2014. The policy covers individual losses of up to \$1,000,000 subject to a \$3,000,000 aggregate and a \$25,000 deductible. Premiums incurred under this policy were \$256,078 in 2014 and \$250,524 in 2013 and are included in insurance expense in the accompanying financial statements. The Hospital also maintains medical malpractice coverage for its physicians. The coverage is claims-made and covers individual physician claims of up to \$200,000, subject to a \$600,000 aggregate. Premiums incurred under these policies were \$211,255 in 2014 and \$182,487 in 2013, and are included in insurance expense in the accompanying financial statements. The medical malpractice policies expire on various dates through July 2015.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Workers' Compensation Insurance. The Hospital is insured under the New Mexico Hospital Workers' Compensation Group for the purpose of providing insurance coverage for workers' compensation. The policy is a retrospectively rated policy and premiums accrue based on the cost of experience of participating health care entities. The Hospital expensed approximately \$180,565 and \$177,889 in workers' compensation premiums during 2014 and 2013, respectively. Such amounts are included in employee benefits in the accompanying financial statements.

Employee Health Insurance. The Hospital is self-insured with respect to medical insurance coverage offered to eligible employees, up to a maximum of \$50,000 per participant. Once the annual aggregate expense exceeds \$1,000,000 annually, excess loss reinsurance is in place that will cover 100% of covered claims not to exceed \$1,000,000. In connection with the self-insured portion, the Hospital maintains a liability for claims that are in the process of being paid. At June 30, 2014 and 2013, the outstanding claims liability was \$565,110 and \$460,975, respectively, and is included in accrued liabilities in the accompanying financial statements.

Commitment to Maintain Working Capital. As a condition of the Nor-Lea Special Hospital Revenue Bonds, Series 2004 and 2003, the Hospital has agreed to maintain a minimum of \$1,000,000 working capital as of each of the years ending during the term of the bond. The Hospital was in compliance with this condition as of June 30, 2014 and 2013.

Management Agreement. Covenant Health Systems (Covenant) manages the Hospital pursuant to a two-year agreement dated March 1, 2010, whereby the Hospital reimburses Covenant for the appointed administrator's salary, including but not limited to social security payments, retirement benefits and other benefits accruing to executive-level employees of Covenant. The agreement was amended on March 1, 2012 to extend the term to December 31, 2014. This agreement may be terminated by either party upon 60 days' written notice. An unexpected termination of this contract with Covenant could have an adverse effect on the operations of the Hospital due to the loss of key management personnel. The Hospital is not aware of and does not anticipate any termination of the existing contract.

During 2013, the Hospital joined a group purchasing organization as part of its membership in the New Mexico Rural Hospital Association (NMRHA). This allows the Hospital to continue to purchase supplies and services at more favorable prices than the Hospital could negotiate on its own. The Hospital does not anticipate discontinuing its membership in the NMRHA.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Sole Community Provider Funding. The Hospital receives Sole Community Provider Funding to compensate the Hospital for providing health care to the indigent population in Lea County. The funding is subject to annual reviews and approvals by Lea County as well as the State of New Mexico Human Services Department. In fiscal years 2014 and 2013, the Hospital recognized Sole Community Provider Funding of \$1,848,258 and \$384,435, respectively. Such amounts are included in *Other revenue* in the accompanying consolidated financial statements. This program was replaced in 2014 by the Uncompensated Care/Safety Net Care Pool Program approved by CMS.

The Hospital has various operating leases for equipment. Total expense was \$562,914 in 2014 and \$556,657 in 2013 for all operating leases. The following is a schedule by year of future minimum lease payments for the building and equipment under non-cancelable operating leases as of June 30, 2014 which have initial or remaining lease terms in excess of one year:

Year ending June 30:	Minimum Lease Payments
2015	\$ 127,936
2016	31,063
2017	23,410
2018	23,410
2019	<u>9,754</u>
Total minimum lease payments	<u>\$ 215,573</u>

NOTE 11. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors was as follows:

	2014	2013
Medicare	22%	21%
Medicaid	9	16
Commercial insurance	22	29
Private pay and other	<u>47</u>	<u>34</u>
	<u>100%</u>	<u>100%</u>

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 12. CHARITY CARE

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Charges excluded from revenue under the Hospital's charity care policy were \$452,830 and \$883,179 for June 30, 2014 and 2013, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS AND BALANCES

From time to time, the Hospital will purchase goods and services from businesses owned by associates and employees of the Hospital. There were no such purchases for the years ended June 30, 2014 and 2013, respectively.

As described above, the Hospital is managed by Covenant. The Hospital incurred the following expenses under this management relationship:

	2014	2013
Management fees	\$ 297,000	246,532
Purchase of goods and services	739,479	1,332,990

No amounts were outstanding at June 30, 2014 or 2013 under the management agreement.

All related party transactions were made in the normal course of business at prices similar to those in transactions with third parties.

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF REVENUES AND EXPENSES
WITH BUDGET COMPARISON
Year Ended June 30, 2014**

	Original Budget	Final Approved Budget	Actual	Variance with Final Budget
Patient Revenue				
Inpatient	\$ 8,088,442	8,088,442	5,626,859	(2,461,583)
Outpatient	125,412,287	125,577,287	115,445,414	(10,131,873)
Total gross patient revenue	133,500,729	133,665,729	121,072,273	(12,593,456)
Contractual allowance	(70,583,311)	(70,675,229)	(59,392,170)	11,283,059
Provision for bad debts	(9,596,543)	(9,608,918)	(10,693,030)	(1,084,112)
Net patient service revenue	53,320,876	53,381,582	50,987,073	(2,394,509)
Other Revenue				
Other	951,160	951,160	2,765,570	1,814,410
Total other revenue	951,160	951,160	2,765,570	1,814,410
Total revenue	54,272,036	54,332,742	53,752,643	(580,099)
Expenses				
Salaries, wages and employee benefits	27,076,068	27,103,381	27,601,848	(498,467)
Purchased services and other	10,231,574	10,674,374	9,614,564	1,059,810
Supplies	10,452,644	10,482,644	9,174,942	1,307,702
Professional fees	1,361,400	1,561,400	1,232,644	328,756
Depreciation and amortization	2,719,440	2,721,640	2,592,130	129,510
Insurance	625,400	625,400	529,180	96,220
Total expenses	52,466,526	53,168,839	50,745,308	2,423,531
Operating Income	1,805,509	1,163,903	3,007,335	1,843,432
Nonoperating revenue and expenses				
Mill levy	3,500,000	3,500,000	3,982,663	482,663
Other grant revenue	498,750	498,750	539,792	41,042
Contributions	90,000	90,000	85,675	(4,325)
Investment income	30,350	30,350	81,827	51,477
Rental income	10,000	10,000	9,310	(690)
Interest expense	(140,510)	(140,510)	(19,255)	121,255
Nonoperating gain/loss - other	-	-	8,124	8,124
Capital grants and contributions	-	-	371,250	371,250
Total nonoperating revenue and expenses	3,988,590	3,988,590	5,059,386	1,070,796
Excess of revenues over expenses before capital grants and contributions	\$ 5,794,099	5,152,493	8,066,721	2,914,228

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
Year Ended June 30, 2014**

Deposit or Investment Type	Wells Fargo Bank	Wells Fargo Overnight repo	Wells Fargo Brokerage*	Lea County State Bank	Arvest Bank	Flagstar Bank	NM State Treasurer Investment Pool	Total
Payroll - Checking	\$ -	\$ -	-	-	-	-	-	-
Operating - Checking	12,027,410	3,591,781	-	53,610	-	-	-	15,672,801
Claims - Checking	-	-	-	-	-	-	-	-
Construction - Checking	495	-	-	-	-	-	-	495
Certificates of Deposit	-	-	7,130,339	-	154,000	246,000	-	7,530,339
Total deposits	<u>12,027,905</u>	<u>3,591,781</u>	<u>7,130,339</u>	<u>53,610</u>	<u>154,000</u>	<u>246,000</u>	<u>-</u>	<u>23,203,635</u>
Money market	-	-	247,168	121,652	-	-	-	368,820
Federal Home Loan Corporation	-	-	1,048,582	-	-	-	-	1,048,582
Federal National Mortgage Association	-	-	-	-	-	-	-	-
Federal Farm Credit Banks bond	-	-	999,840	-	-	-	-	999,840
Freddie Mac	-	-	2,254,355	-	-	-	-	2,254,355
Investment in local government investment pool	-	-	-	-	-	-	388,468	388,468
Total investments	<u>-</u>	<u>-</u>	<u>4,549,945</u>	<u>121,652</u>	<u>-</u>	<u>-</u>	<u>388,468</u>	<u>5,060,065</u>
Reconciling items	<u>3,986,612</u>	<u>(3,591,781)</u>	<u>-</u>	<u>(9,305)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>385,526</u>
Carrying value	<u>\$ 16,014,517</u>	<u>-</u>	<u>11,680,284</u>	<u>165,957</u>	<u>154,000</u>	<u>246,000</u>	<u>388,468</u>	<u>28,649,226</u>
Petty Cash								<u>2,525</u>
Total deposits and investments as of June 30, 2014								<u>\$ 28,651,751</u>
Reconciliation to the Statement of Net Position								
Cash and cash equivalents								\$ 16,182,999
Short-term investments								6,518,225
Investments - restricted								175,325
Long-term investments								<u>5,775,202</u>
Total deposits and investments as of June 30, 2014								<u>\$ 28,651,751</u>

* The Wells Fargo Brokerage investments includes deposits and investments held in a variety of financial institutions yet reported through Wells Fargo Brokerage.

NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF PLEDGED COLLATERAL BY BANKS
June 30, 2014

	Wells Fargo Bank	Wells Fargo Bank Overnight repo	Lea County State Bank	Arvest Bank	Flagstar Bank
Deposits	\$ 12,027,905	3,591,781	163,263	246,000	154,000
FDIC insured	(250,000)	N/A	(250,000)	(250,000)	(250,000)
Total uninsured public funds	11,777,905	3,591,781	(86,737)	(4,000)	(96,000)
State of New Mexico pledged collateral requirement: 50% of uninsured balances	\$ 5,888,953	\$ 3,663,617	-	-	-
Pledged collateral:					
<u>Security type, CUSIP, and Maturity Date</u>	Fair Market Value				
FNMA, 3138W9A34, 7/1/2043	\$ 5,893,575				
FNMA, 3138W9AZ3, 7/1/2043	89,146				
FNMA, 3138W9PA2, 9/1/2043	264,385				
FNMA, 31418A2W7, 7/1/2043	606,911				
Total pledged collateral	6,854,017 3,663,617				
Excess of pledged collateral over requirement	\$ 965,064 \$ -				

All pledged collateral is held by The Bank of New York Mellon as custodian.

**REPORT OF INDEPENDENT AUDITORS 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**

The Board of Trustees and the Management of
Nor-Lea Hospital District
and
Mr. Hector Balderas
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Nor-Lea Hospital District ("Hospital"), a political subdivision of the State of New Mexico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hospital's basic financial statements, as listed in the table of contents, and the Schedule of Revenues and Expenses with Budget Comparison ("budget comparison") for the year ended June 30, 2014, presented as supplementary information, and have issued our report thereon dated October 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hospital'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Hospital'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Trustees and the Management of
Nor-Lea Hospital District
and
Mr. Hector Balderas
New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results 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.

Mess Adams LLP

Albuquerque, New Mexico
October 15, 2014

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014**

None

**NOR-LEA HOSPITAL DISTRICT
SUMMARY SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

2013-01	Noncompliance of Submission of the Audit Contract and recommendation	Resolved
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**NOR-LEA HOSPITAL DISTRICT
EXIT CONFERENCE
Year Ended June 30, 2014**

We held an exit conference with management and a member of the Board of Trustees on September 12, 2014. The exit conference was attended by the following individuals:

Management Exit Conference

Nor-Lea Hospital District

David Shaw, Chief Executive Officer
Allyson Roberts, Chief Financial Officer
Pat Wise, Secretary of the Board of Trustees

Moss Adams LLP

Dhaval Patel, Partner

The financial statements were prepared with the assistance of Moss Adams LLP.