



Report of Independent Auditors and Financial
Statements with Supplementary Information

Nor-Lea Hospital District

June 30, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
INTRODUCTORY SECTION	
Official Roster	1
REPORT OF INDEPENDENT AUDITORS	2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-15
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	16
Statements of Revenues, Expenses and Changes in Net Position	17
Statements of Cash Flows	18-19
Notes to Financial Statements	20-32
SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenses with Budget Comparison	33
Schedule of Deposit and Investment Accounts	34
Schedule of Pledged Collateral by Banks	35
Schedule of Vendor Information	36
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>	37-38
Schedule of Findings and Responses	39
Exit Conference	40

**NOR-LEA HOSPITAL DISTRICT
OFFICIAL ROSTER
JUNE 30, 2015**

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. Timothy Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2015 and 2014, 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, 2015.

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

Nor-Lea Hospital District
and
Mr. Timothy Keller
New Mexico State Auditor

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2015 and 2014, 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, 2015 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 15 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.

Nor-Lea Hospital District
and
Mr. Timothy Keller
New Mexico State Auditor

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 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.

The Schedule of Vendor Information has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 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, 2015

NOR-LEA HOSPITAL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

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, 2015 and 2014. 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 \$7,834,038 or 14.7% increase in 2013; a \$8,066,721 or 13.2% increase in 2014; and an \$10,212,157 or 14.8% increase in 2015.
- The Hospital reported an operating income of \$3,658,014 in 2013; an operating income of \$3,007,335 in 2014; and an operating income of \$5,336,968 in 2015.
- Net patient revenue increased in two of the past three years. The net patient revenue increased in 2013 by \$7,175,495 or 16.4%; decreased in 2014 by \$(70,170) or 0.1%; and increased in 2015 by \$7,959,793 or 15.6%.
- Non-operating revenue decreased in 2013 by \$(450,741) or 9.7%; increased in 2014 by \$512,112 or 12.3%; and decreased in 2015 by \$(486,197) or 10.4%.

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.

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.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

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 \$7,834,038 (14.7%) in 2013; and \$8,066,721 (13.2%) in 2014 and \$10,212,157 (14.8%) in 2015 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position

	June 30,		
	2015	2014	2013
Assets			
Current assets	\$ 36,879,249	\$ 38,615,108	\$ 36,898,758
Capital assets, net	48,485,109	38,640,020	31,114,496
Other non-current assets	193,596	144,178	197,994
Total assets	<u>\$ 85,557,954</u>	<u>\$ 77,399,306</u>	<u>\$ 68,211,248</u>
Liabilities			
Long-term debt outstanding	\$ 1,242,832	\$ 1,673,508	\$ 2,028,048
Other current liabilities	4,914,309	6,537,142	5,061,265
Total liabilities	<u>6,157,141</u>	<u>8,210,650</u>	<u>7,089,313</u>
Net assets			
Invested in capital assets, net of related debt	47,169,563	36,900,012	28,991,752
Restricted- expendable	211,983	175,325	141,584
Unrestricted	32,019,267	32,113,319	31,988,599
Total net position	<u>79,400,813</u>	<u>69,188,656</u>	<u>61,121,935</u>
Total liabilities and net position	<u>\$ 85,557,954</u>	<u>\$ 77,399,306</u>	<u>\$ 68,211,248</u>

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

A significant component of the change in the Hospital's assets is the increase in net patient revenue for 2013 and 2015. The net patient revenue increased by \$7,175,495 in 2013 and \$7,959,793 in 2015. 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 and 2015 the Hospital did receive more funds under the new Uncompensated Care/Safety Net Care Pool Program (SNCP) approved by Center for Medicare and Medicaid Services (CMS) which replaced the Sole Community Dollar Program in the State of New Mexico. The SNCP program includes new payments for uncompensated care and hospital quality improvements. These payments are now based on hospital utilization and demonstrated uncompensated care. The hospital received net proceeds of \$384,435 in 2013, \$1,848,258 in 2014 and \$2,391,176 in 2015. Gross days in accounts receivable increased in 2013, decreased in 2014 and then decreased again in 2015. The gross days in accounts receivable were 67.57 in 2013, 56.76 in 2014 and 55.29 in 2015. The receivable/payable for estimated third party settlements relating to open cost reports has changed in each of the years 2013, 2014 and 2015. There was a net receivable of \$1,191,588 in 2013, a net receivable of \$468,568 in 2014 and a net receivable of \$428,402 in 2015. Funds were expended during 2015 for the Lovington Clinic expansion project along with other capital needs for a total of \$13,440,539. Even with these capital project expenditures, the total of cash and cash equivalents and investments decreased by only \$2,678,878 in 2015.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Operating Results and Changes in the Hospital Net Position

In 2015, the Hospital's net position increased by \$10,212,157 or 14.8%, as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in the Hospital Net Position

	Years ended June 30,		
	2015	2014	2013
Operating Revenues			
Net patient service revenues	\$ 58,946,866	\$ 50,987,073	\$ 51,057,243
Other operating revenues	3,288,202	2,765,570	1,528,688
Total operating revenues	<u>62,235,068</u>	<u>53,752,643</u>	<u>52,585,931</u>
Operating Expenses			
Salaries and benefits	30,097,497	27,601,848	24,530,172
Purchase services and other	9,950,880	9,614,564	9,503,720
Supplies	11,256,429	9,174,942	9,722,424
Professional fees	1,381,155	1,232,644	2,121,304
Depreciation and amortization	3,596,440	2,592,130	2,499,788
Insurance	615,699	529,180	550,509
Total operating expenses	<u>56,898,100</u>	<u>50,745,308</u>	<u>48,927,917</u>
Operating income	<u>5,336,968</u>	<u>3,007,335</u>	<u>3,658,014</u>
Non-operating Revenues and Expenses			
Mill Levy	3,499,815	3,982,663	3,674,115
Investment income	81,831	81,827	12,316
Gain on sale of capital assets	23,962	8,124	-
Non-capital grants and contributions	610,844	634,777	626,349
Interest expense	(14,513)	(19,255)	(136,756)
Total non-operating revenues	<u>4,201,939</u>	<u>4,688,136</u>	<u>4,176,024</u>
Excess of revenues over expenses before capital grants and contribution	9,538,907	7,695,471	7,834,038
Capital grants and contributions	<u>673,250</u>	<u>371,250</u>	<u>-</u>
Increase in net position	10,212,157	8,066,721	7,834,038
Net assets, beginning of year	<u>69,188,656</u>	<u>61,121,935</u>	<u>53,287,897</u>
Net assets, end of year	<u>\$ 79,400,813</u>	<u>\$ 69,188,656</u>	<u>\$ 61,121,935</u>

NOR-LEA HOSPITAL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015 AND 2014

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 \$3,658,014 in 2013, operating income of \$3,007,335 in 2014 and operating income of \$5,336,968 in 2015. 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 an operating 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 \$7,175,495 (16.4%) in 2013, showed a slight decrease of \$70,170 (0.1%) in 2014, and then increased in 2015 by \$7,959,793 (15.6%). The 2014 decrease was due, in part, to the conversion of the Hospital'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 was completed November 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 startup 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.
- 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 new endoscopy area of the hospital and the addition of an urologist to the 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%). These increases during 2012 were a result of the additional providers and services initiated in FYE 2011.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

- 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 20.0% 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.
- During 2015, the outpatient visits grew by 6.6%. One of the areas with significant grow was physical rehab (10.7% more procedures) with the additional volume coming from physical therapy visits along with the newer speech therapy program. The chemotherapy/outpatient infusion department moved to their larger new area in December 2014 and their volume increased by 8.0%. The rheumatology program expanded the number of days per month from 4 days to 5 days in March 2014 and from 5 days to 6 days in November 2014. This resulted in a 34.6% growth in procedures.
- 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 and in 2015 it was \$2,391,176.
- 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 39.1% of the gross revenue in 2013, 36.4% in 2014, and 34.6% in 2015.

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. An annual \$1.5 million mill was approved in 2013 for 4 years and an annual \$2.5 million mill was approved in 2015 for 4 years. The next mill levy election is in 2017. 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 72.1% in 2013, 69.1% in 2014, and 61.6% in 2015, can fluctuate from year to year depending upon the current economy.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Grants, Contributions and Endowments

Historically, the Hospital had not received significant capital grants and contributions but has become more active in the pursuit of additional funding within the past few years. 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. During 2015, the Hospital received the following grant funds: trauma grants totaling \$119,514, emergency preparedness grant funds of \$8,256, asthma grant funds of \$11,875, physician recruitment grant funds of \$35,365, SHIP grant funds of \$8,084 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, and in 2013, 2014 and 2015 the Hospital received \$240,500 each year 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, 2013, 2014 and 2015, the Hospital received net donations (restricted and unrestricted) of \$82,024, \$85,675 and \$105,069 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, 2015 AND 2014**

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 \$307,118 expended during 2009, \$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 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 expended an additional \$8,880,051 and during 2015 the Hospital expended \$7,956,453. This brought the total to \$17,129,116 through June 30, 2015. The new Lovington Clinic was opened for patients December 2014.

In 2015, the Hospital began the design and development of the inpatient services area which will add approximately 13,000 square feet to the existing building. This expansion will provide 25 private rooms along with additional storage and work areas for staff. Included in this project is the remodel of the old Lovington Clinic space which will house the specialty physician services: The Professional Physician Center. During FYE 2014, the Hospital expended \$38,342, and \$2,600,592 was expended during 2015. The inpatient expansion will be completed during January 2016.

The Hospital also began the design and development of a new clinic in Hobbs, NM. This property is owned by Lea County and will be leased to Nor-Lea for providing primary health care to the citizens of Hobbs. The renovation will be paid by Lea County, but the architect fees will be paid by Nor-Lea. During 2014, the Hospital expended \$9,268, and an additional \$85,310 was expended during 2015. This clinic will open in approximately November 2015.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

At the end of 2015, the Hospital had \$48,485,109 invested in capital assets, net of accumulated depreciation; see Note 5 to the financial statements. The Hospital purchased new equipment in the amount of \$2,816,149, spent \$7,956,453 in buildings and improvements and spent \$2,685,902 for construction in progress. The Hospital sold 2 of their 20 acres for \$39,500. The original cost was \$17,965 which resulted in a gain of \$21,535 reported in the financials as non-operating revenue. The construction in progress relates to the new Inpatient expansion and renovation (scheduled for completion in January 2016) and the Hobbs Clinic remodel (scheduled for completion in November 2015).

At the end of 2014, the Hospital had \$38,640,020 invested in capital assets, net of accumulated depreciation. 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 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.

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.

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 2015 have brought the outstanding balance on the 2003 bonds to \$0 – Paid in Full and the outstanding balance on the 2004 bonds to \$1,200,000. Also, the Hospital had outstanding debt associated with capital leases. The outstanding capital lease debt was \$122,744 in 2013, \$140,008 in 2014 and \$115,546 in 2015.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 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 8 mid-level practitioners and 10 physicians. During 2010, the Hospital added an additional physician to complete the space in the Lovington Clinic and opened a Dental Clinic in Hobbs, NM with one Dentist and one Hygienist. The Hospital 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 Hospital. During 2011, the 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 Hospital had 13 physicians and 9 mid-level practitioners as of 2011. At the end of 2012, the Hospital had 14 physicians and 9 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 Hospital had 15 physicians and 11 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 Hospital had 16 physicians and 10 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 11 as of June 30, 2014.

During 2015, the Hospital experience growth in its employed practitioners as it prepared to open its new Lovington Medical Clinic in December 2015. Additional mid-level practitioners were added to open a walk-in clinic operating from 8:00am to 8:00pm Monday through Saturday, and a mid-level practitioner was added in the pediatric primary care area. A Behavior Health Clinic was also added to the Lovington Medical Clinic. This area was initially staffed with one physician and one mid-level provider. At the end of 2015, the Hospital had 17 physicians and 16 mid-level practitioners.

**NOR-LEA HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 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 2015, the Hospital developed an original budget with gross patient revenue of \$141,101,945 and operating expenses of \$57,095,670. The Hospital did not have to submit an amended budget during the year.

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.

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**NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF NET POSITION**

	June 30,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,438,728	\$ 16,182,999
Investments	12,534,145	12,468,752
Patient accounts receivable, net of estimated uncollectibles of \$9,107,270 in 2015 and \$8,302,080 in 2014	7,259,658	6,262,728
Other receivables	2,051,744	2,272,424
Estimated third-party payor settlements	428,402	468,568
Inventories and prepaid expenses	1,166,572	959,637
Total current assets	36,879,249	38,615,108
NONCURRENT ASSETS		
Capital assets, net	48,485,109	38,640,020
Physician receivables	190,626	140,218
Goodwill and intangibles, net of accumulated amortization of \$85,005 in 2015 and \$84,015 in 2014	2,970	3,960
Total assets	\$ 85,557,954	\$ 77,399,306
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,883,108	\$ 3,986,343
Accrued liabilities	1,621,896	1,213,703
Current portion of capital leases	72,714	66,500
Compensated absences	1,336,591	1,270,596
Total current liabilities	4,914,309	6,537,142
NONCURRENT LIABILITIES		
Long-term debt	1,200,000	1,600,000
Capital leases, net of current portion	42,832	73,508
Total liabilities	6,157,141	8,210,650
NET POSITION		
Net investment in capital assets	47,169,563	36,900,012
Restricted - expendable	211,983	175,325
Unrestricted	32,019,267	32,113,319
Total net position	79,400,813	69,188,656
Total liabilities and net position	\$ 85,557,954	\$ 77,399,306

NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2015	2014
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts of \$9,787,249 in 2015 and \$10,693,030 in 2014	\$ 58,946,866	\$ 50,987,073
Other revenue	3,288,202	2,765,570
Total operating revenue	<u>62,235,068</u>	<u>53,752,643</u>
OPERATING EXPENSES		
Salaries and wages	22,030,133	20,109,203
Supplies	11,256,429	9,174,942
Employee benefits	8,067,364	7,492,645
Purchased services	6,306,707	6,306,031
Depreciation and amortization	3,596,440	2,592,130
Other	2,084,142	1,753,419
Professional fees	1,381,155	1,232,644
Leases and rentals	955,226	1,043,165
Insurance	615,699	529,180
Utilities	604,805	511,949
Total operating expenses	<u>56,898,100</u>	<u>50,745,308</u>
Operating income	<u>5,336,968</u>	<u>3,007,335</u>
NONOPERATING REVENUES (EXPENSES)		
Mill levy	3,499,815	3,982,663
Investment income	81,831	81,827
Interest expense	(14,513)	(19,255)
Noncapital grants, contributions, and other	634,806	642,901
Total nonoperating revenues	<u>4,201,939</u>	<u>4,688,136</u>
Excess of revenues over expenses before capital grants and contributions	9,538,907	7,695,471
Capital grants and contributions	<u>673,250</u>	<u>371,250</u>
Increase in net position	10,212,157	8,066,721
Net position, beginning of year	<u>69,188,656</u>	<u>61,121,935</u>
Net position, end of year	<u>\$ 79,400,813</u>	<u>\$ 69,188,656</u>

NOR-LEA HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	Year Ending June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 57,990,102	\$ 52,577,143
Payments to suppliers and contractors	(25,514,333)	(19,671,610)
Payments to and on behalf of employees	(29,673,717)	(27,027,848)
Receipts from sole community provider funds	2,973,801	1,848,258
Other operating receipts	821,298	(390,615)
Net cash provided by operating activities	<u>6,597,151</u>	<u>7,335,328</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Mill levy support	3,697,104	3,982,663
Noncapital grants and contributions	629,765	642,901
Net cash provided by noncapital financing activities	<u>4,326,869</u>	<u>4,625,564</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on long-term debt	(400,000)	(400,000)
Interest paid on long-term debt, net of amounts capitalized	(14,513)	(19,255)
Payments on capital leases	(73,144)	(123,438)
Capital grant	173,250	371,250
Capital expenditures	(13,409,822)	(10,038,839)
Proceeds from sale of capital assets	39,500	71,002
Net cash used in capital and related financing activities	<u>(13,684,729)</u>	<u>(10,139,280)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in investments, net	(65,393)	(77,469)
Investment income	81,831	81,827
Net cash provided by investing activities	<u>16,438</u>	<u>4,358</u>
(DECREASE) INCREASE IN CASH EQUIVALENTS	(2,744,271)	1,825,970
CASH AND CASH EQUIVALENTS, beginning of year	<u>16,182,999</u>	<u>14,357,029</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 13,438,728</u>	<u>\$ 16,182,999</u>

NOR-LEA HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS

	Year Ending June 30,	
	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,336,968	\$ 3,007,335
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,596,440	2,592,130
Provision for bad debts	9,787,249	10,693,030
Changes in operating assets and liabilities		
Patient accounts receivable	(10,784,179)	(9,825,980)
Other receivables	506,897	(1,307,927)
Estimated third-party payor settlements	40,166	723,020
Inventories and prepaid expenses	(206,935)	(103,178)
Physician receivables	(50,408)	52,825
Accounts payable	(2,103,235)	982,898
Accrued liabilities	408,193	216,314
Compensated absences	65,995	304,861
	<u>\$ 6,597,151</u>	<u>\$ 7,335,328</u>
 Noncash Investing, Capital and Financing Activities		
Additions to equipment under capital leases	<u>\$ 48,682</u>	<u>\$ 140,702</u>

NOR-LEA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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 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. The Foundation has total assets and net position of \$603,552.

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.

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.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

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.

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

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 funded through cash, generally accepted accounting principles required interest capitalization using the rates of any outstanding borrowings and, accordingly, interest costs of \$78,400 and \$98,000 for 2015 and 2014, respectively, have been capitalized.

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, 2015 and 2014, the Hospital had accrued \$1,336,591 and \$1,270,596 for compensated absences, respectively.

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 2015, 2014, or 2013.

NOR-LEA HOSPITAL DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2015 and 2014, the Hospital's restricted expendable net position was comprised of unexpended donations and funds held by the Nor-Lea Foundation in the amount of \$211,983 and \$175,325, 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.

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 patient service revenue – The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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.

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 an annual \$1.5 million mill levy, scheduled to expire on December 31, 2017, and an annual \$2.5 million mill levy, expiring on December 31, 2019. The Hospital recorded mill levy revenues of \$3,499,815 in 2015 and \$3,982,663 in 2014. Included in other receivables is \$268,449 and \$465,738 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 Lea 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 in both 2015 and 2014, 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.

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 previous 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.

Reclassification – Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

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.

NOR-LEA HOSPITAL DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 3 – Deposits and Investments (continued)

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 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, 2015 and 2014, 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, 2015 and 2014, the Hospital's investment in the New MexiGROW LGIP was exposed to custodial credit risk in the amounts of \$391,373 and \$388,468, 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.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Deposits and Investments (continued)

As of June 30, 2015 and 2014, the Hospital's investments were rated as follows:

LGIP	AAAm	(S&P)
Federal Home Loan Corporation	AA+	(S&P)
Freddie Mac	AA+	(S&P)
Fannie Mae	AA+	(S&P)

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, 2015 and 2014 included the following:

<u>Deposits and Investments</u>	<u>Maturities</u>	<u>Fair value</u>	
		<u>2015</u>	<u>2014</u>
Items not subject to interest rate risk:			
Bank deposits	N/A	\$ 13,428,431	\$ 16,180,474
Money market	Daily	6,897	247,168
Petty cash	N/A	3,400	2,525
Items subject to interest rate risk:			
Certificate of Deposit	Ranges from 12/24/15 to 6/26/17	7,439,158	7,530,339
Federal Home Loan Corporation	9/30/2016	1,050,992	1,048,582
Federal Farm Credit Bank Bond		-	999,840
Freddie Mac	Ranges from 9/25/15 to 7/28/17	3,252,346	2,254,355
Fannie Mae	9/27/2017	400,276	-
LGIP	***	391,373	388,468
		<u>\$ 25,972,873</u>	<u>\$ 28,651,751</u>

***The LGIP's weighted average maturity at June 30, 2015 and 2014 is 54.6 and 48.6 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 – Other Receivables

Other receivables, accounts payable and accrued expenses reported as current assets and liabilities by the Hospital at June 30, 2015 and 2014 consisted of these amounts:

	<u>2015</u>	<u>2014</u>
Other receivables		
Mill levy receivable	\$ 268,449	\$ 465,738
Grants receivable	587,792	104,286
Miscellaneous receivables	1,195,503	1,702,400
	<u>1,195,503</u>	<u>1,702,400</u>
Total other receivables	<u>\$ 2,051,744</u>	<u>\$ 2,272,424</u>

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

Note 5 – Capital Assets

The following summarizes capital asset activity for the years ended June 30, 2015 and 2014:

	Balance 2014	Additions	Disposals	Transfer	Balance 2015
Non-depreciable assets					
Land	\$ 149,771	\$ -	\$ (17,965)	\$ -	\$ 131,806
Construction in Progress	9,220,272	2,685,902	-	(9,172,662)	2,733,512
	<u>9,370,043</u>	<u>2,685,902</u>	<u>(17,965)</u>	<u>(9,172,662)</u>	<u>2,865,318</u>
Depreciable assets					
Land improvements	28,660	-	-	-	28,660
Building and improvements	37,127,877	7,956,453	-	9,172,662	54,256,992
Equipment	14,057,994	2,816,149	-	-	16,874,143
	<u>51,214,531</u>	<u>10,772,602</u>	<u>-</u>	<u>9,172,662</u>	<u>71,159,795</u>
Accumulated depreciation					
Land improvements	(28,660)	-	-	-	(28,660)
Building and improvements	(10,870,453)	(2,260,803)	-	-	(13,131,256)
Equipment	(11,045,441)	(1,334,647)	-	-	(12,380,088)
	<u>(21,944,554)</u>	<u>(3,595,450)</u>	<u>-</u>	<u>-</u>	<u>(25,540,004)</u>
Capital assets, net	<u>\$ 38,640,020</u>	<u>\$ 9,863,054</u>	<u>\$ (17,965)</u>	<u>\$ -</u>	<u>\$ 48,485,109</u>

	Balance 2013	Additions	Disposals	Transfer	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>	<u>-</u>	<u>9,370,043</u>
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>	<u>-</u>	<u>51,214,531</u>
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>	<u>-</u>	<u>(21,944,554)</u>
Capital assets, net	<u>\$ 31,114,496</u>	<u>\$ 7,588,400</u>	<u>\$ (62,876)</u>	<u>\$ -</u>	<u>\$ 38,640,020</u>

Depreciation expense, including amortization for equipment held under capital leases for the years ended June 30, 2015 and 2014 was \$3,595,450 and \$2,591,141, respectively. The Hospital acquired equipment under capital leases at a cost of \$48,682 and \$140,702 for the years ended June 30, 2015 and 2014, respectively.

Amortization expense for leased equipment was \$66,179 and \$90,270 for the years ended June 30, 2015 and 2014, respectively, and amortized cost was \$114,984 and \$132,481 for the years ended June 30, 2015 and 2014, respectively.

**NOR-LEA HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Long-Term Debt

The following summarizes long-term debt activity for the years ended June 30, 2015 and 2014:

	Balance 2014	Addition	Reduction	Balance 2015	Amounts Due Within One Year
Bonds Payable					
2004 Hospital Revenue Bond	\$ 1,600,000	\$ -	\$ (400,000)	\$ 1,200,000	\$ -
Capital Lease Obligation	140,008	48,682	(73,144)	115,546	72,714
Total	\$ 1,740,008	\$ 48,682	\$ (473,144)	\$ 1,315,546	\$ 72,714

	Balance 2013	Addition	Reduction	Balance 2014	Amounts Due Within One Year
Bonds Payable					
2004 Hospital Revenue Bond	\$ 2,000,000	\$ -	\$ (400,000)	\$ 1,600,000	\$ -
Capital Lease Obligation	122,744	140,702	(123,438)	140,008	66,500
Total	\$ 2,122,744	\$ 140,702	\$ (523,438)	\$ 1,740,008	\$ 66,500

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2015 and 2014 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, 2015 and 2014, the balance remaining on the 2004 Bond was \$1,200,000 and \$1,600,000 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, 2015, Hospital paid July 1, 2015 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.

Under the term of the 2004 Bond Indenture, 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, 2015 and 2014. The 2004 Bond Indenture also requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding. As of June 30, 2015, the Hospital was in compliance with these requirements.

NOR-LEA HOSPITAL DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 6 – Long-Term Debt (continued)

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

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2016	\$ 72,714	\$ 67,934
2017	433,225	41,429
2018	409,607	19,907
2019	400,000	-
	<u>\$ 1,315,546</u>	<u>\$ 129,270</u>

The Hospital incurred \$92,912 and \$117,255 in interest costs related to debt and capital leases during the years ended June 30, 2015 and 2014, respectively.

Note 7 – 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.

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 35% and 20%, respectively, of the Hospital's patient revenue for the year ended June 30, 2015 and approximately 36% and 14%, respectively, of the Hospital's patient revenue for the year ended June 30, 2014. 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.

Note 7 – Net Patient Service Revenue (continued)

The Medicare and Medicaid cost reports for fiscal years 2012 through 2015 have not been final settled. In management's opinion, estimated Medicare and Medicaid settlements accrued for at June 30, 2015 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.

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 \$516,201 in 2015 and \$442,111 in 2014 and are fully vested when made. Employees may also elect to make contributions to the Plan. Total employee contributions to the Plan totaled \$910,784 in 2015 and \$837,918 in 2014.

Note 9 – 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 expires on December 31, 2015. 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 \$273,663 in 2015 and \$256,078 in 2014 and are

NOR-LEA HOSPITAL DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 9 – Commitments and Contingencies (continued)

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 \$237,400 in 2015 and \$211,255 in 2014, and are included in insurance expense in the accompanying financial statements. The medical malpractice policies for physicians expire on various dates through July 2016.

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 \$210,696 and \$180,565 in workers' compensation premiums during 2015 and 2014, 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, 2015 and 2014, the outstanding claims liability was \$688,980 and \$565,110, 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, 2015 and 2014.

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, 2015. 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.

Group purchasing membership – 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**

Note 9 – Commitments and Contingencies (continued)

Sole community provider funding – The Hospital received Sole Community Provider Funding to compensate the Hospital for providing health care to the indigent population in Lea County. The funding was subject to annual reviews and approvals by Lea County as well as the State of New Mexico Human Services Department. This program was replaced in 2014 by the Uncompensated Care/Safety Net Care Pool Program approved by CMS. In fiscal years 2015 and 2014, the Hospital recognized revenue from these programs in the amount of \$2,391,176 and \$1,848,258, respectively. Such amounts are included in other revenue in the accompanying consolidated financial statements.

Operating leases – The Hospital has various operating leases for equipment. Total expense was \$378,264 in 2015 and \$562,914 in 2014 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, 2015 which have initial or remaining lease terms in excess of one year:

Year ending June 30,	Minimum Lease Payments
2016	\$ 298,876
2017	291,223
2018	186,749
2019	4,171
	<hr/>
Total minimum lease payments	\$ 781,019

Note 10 – 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:

	2015	2014
Medicare	17%	22%
Medicaid	13%	9%
Commercial insurance	25%	22%
Private pay and other	45%	47%
	<hr/>	<hr/>
	100%	100%

NOR-LEA HOSPITAL DISTRICT NOTES TO FINANCIAL STATEMENTS

Note 11 – 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 \$238,018 and \$477,265 for June 30, 2015 and 2014, respectively.

Note 12 – 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, 2015 and 2014, respectively.

As described in Note 9, the Hospital is managed by Covenant. The Hospital incurred the following expenses under this management relationship:

	<u>2015</u>	<u>2014</u>
Management fees	\$ 300,960	\$ 297,000
Purchase of goods and services	736,559	739,479

No amounts were outstanding at June 30, 2015 or 2014 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, 2015

	Original Budget	Final Approved Budget	Actual	Variance with Final Budget
Patient Revenue				
Inpatient	\$ 6,783,680	\$ 6,783,680	\$ 5,557,703	\$ (1,225,977)
Outpatient	134,318,265	134,318,265	137,145,184	2,826,919
Total gross patient revenue	<u>141,101,945</u>	<u>141,101,945</u>	<u>142,702,887</u>	<u>1,600,942</u>
Contractual allowance	(70,545,619)	(70,545,619)	(73,968,772)	(3,423,153)
Provision for bad debts	(13,431,430)	(13,431,430)	(9,787,249)	3,644,181
Net patient service revenue	<u>57,124,896</u>	<u>57,124,896</u>	<u>58,946,866</u>	<u>1,821,970</u>
Other Revenue				
Other	1,252,600	1,252,600	3,288,202	2,035,602
Total other revenue	<u>1,252,600</u>	<u>1,252,600</u>	<u>3,288,202</u>	<u>2,035,602</u>
Total revenue	<u>58,377,496</u>	<u>58,377,496</u>	<u>62,235,068</u>	<u>3,857,572</u>
Expenses				
Salaries, wages and employee benefits	29,764,204	29,764,204	30,097,497	(333,293)
Purchased services and other	10,727,707	10,727,707	9,950,880	776,827
Supplies	10,881,650	10,881,650	11,256,429	(374,779)
Professional fees	1,229,034	1,229,034	1,381,155	(152,121)
Depreciation and amortization	3,912,375	3,912,375	3,596,440	315,935
Insurance	580,700	580,700	615,699	(34,999)
Total expenses	<u>57,095,670</u>	<u>57,095,670</u>	<u>56,898,100</u>	<u>197,570</u>
Operating Income	<u>1,281,826</u>	<u>1,281,826</u>	<u>5,336,968</u>	<u>4,055,142</u>
Nonoperating revenue and expenses				
Mill levy	3,500,000	3,500,000	3,499,815	(185)
Other grant revenue	476,270	476,270	498,594	22,324
Contributions	88,000	88,000	105,070	17,070
Investment income	100,352	100,352	81,831	(18,521)
Rental income	10,000	10,000	7,180	(2,820)
Interest expense	(35,396)	(35,396)	(14,513)	20,883
Nonoperating gain/loss - other	-	-	23,962	23,962
Noncapital grants and contributions	-	-	673,250	673,250
	<u>4,139,226</u>	<u>4,139,226</u>	<u>4,875,189</u>	<u>735,963</u>
Excess of revenues over expenses before capital grants and contributions	<u>\$ 5,421,052</u>	<u>\$ 5,421,052</u>	<u>\$ 10,212,157</u>	<u>\$ 4,791,105</u>

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, 2015 and 2014, the Hospital was in compliance with these requirements.

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2015**

Deposit or Investment Type	Wells Fargo Bank	Wells Fargo Brokerage*	Lea County State Bank	Mechanics & Farmers Bank	Ever Bank	NM State Treasurer Investment Pool	Total
Operating - Checking	\$ 13,172,856	\$ -	\$ 382,158	\$ -	\$ -	\$ -	\$ 13,555,014
Construction - Checking	669,311	-	-	-	-	-	669,311
Certificates of Deposit	-	7,039,158	-	154,000	246,000	-	7,439,158
Total deposits	<u>13,842,167</u>	<u>7,039,158</u>	<u>382,158</u>	<u>154,000</u>	<u>246,000</u>	<u>-</u>	<u>21,663,483</u>
Money market	-	6,897	-	-	-	-	6,897
Federal Home Loan Corporation	-	1,050,992	-	-	-	-	1,050,992
Freddie Mac	-	3,252,346	-	-	-	-	3,252,346
Fannie Mae	-	400,276	-	-	-	-	400,276
Investment in local government investment pool	-	-	-	-	-	391,330	391,330
Total investments	<u>-</u>	<u>4,710,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,330</u>	<u>5,101,841</u>
Reconciling items	<u>(780,237)</u>	<u>-</u>	<u>(15,657)</u>	<u>-</u>	<u>-</u>	<u>43</u>	<u>(795,851)</u>
Carrying value	<u>\$ 13,061,930</u>	<u>\$ 11,749,669</u>	<u>\$ 366,501</u>	<u>\$ 154,000</u>	<u>\$ 246,000</u>	<u>\$ 391,373</u>	25,969,473
Petty Cash							<u>3,400</u>
Total deposits and investments as of June 30, 2015							<u>\$ 25,972,873</u>
Reconciliation to the Statement of Net Position							
Cash and cash equivalents							\$ 13,438,728
Total investments							<u>12,534,145</u>
Total deposits and investments as of June 30, 2015							<u>\$ 25,972,873</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
YEAR ENDED JUNE 30, 2015**

	Wells Fargo Bank	Lea County State Bank Hospital	Lea County State Bank Foundation	Mechanics & Farmers Bank	Ever Bank
Deposits	\$ 13,842,167	\$ 177,218	\$ 204,940	\$ 154,000	\$ 246,000
FDIC insured	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>
Total uninsured public funds	<u>13,592,167</u>	<u>(72,782)</u>	<u>(45,060)</u>	<u>(96,000)</u>	<u>(4,000)</u>
State of New Mexico pledged collateral requirement: 50% of uninsured balances	<u>6,796,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pledged collateral:	Fair Market Value				
<u>Security type, CUSIP, and Maturity Date</u>					
FNMA, 3138W9A34, 7/1/2043	\$ 1,535,549				
FNMA, 3138W3RX3, 2/1/2043	1,243,919				
FNMA, 3132J8P20, 4/1/2043	1,107,501				
FNMA, 3138X7W66, 9/1/2043	771,239				
FNMA, 3138W64S2, 3/1/2043	644,109				
FNMA, 3138A2AX7, 12/01/2040	499,715				
FNMA, 31412XNY6, 7/1/2037	488,251				
FNMA, 3138MGM93, 2/1/2043	484,339				
FNMA, 3138A8EL6, 2/1/2026	289,468				
FNMA, 3138W46G1, 2/1/2043	268,548				
FNMA, 3138EG3M4, 9/1/2041	246,212				
FNMA, 31410LDQ2, 3/1/2041	188,053				
FNMA, 3138EL4Q3, 9/1/2043	178,066				
FNMA, 3138ATVX5, 12/1/2026	131,855				
FNMA, 3138WQA28, 5/1/2043	110,152				
FNMA, 3138X0ZA9, 7/1/2043	77,536				
FNMA, 3136A62U7, 9/1/2041	<u>73,379</u>				
Total pledged collateral	<u>8,337,891</u>				
Excess of pledged collateral over requirement	<u>\$ 1,541,807</u>				

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

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF VENDOR INFORMATION
YEAR ENDED JUNE 30, 2015**

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
80214	Hospital Medical Equipment	McKesson	\$ 445,574	-	Henry Schein	N	N/A	Medical Equipment for Lovington Clinic
81814	Hospital Furniture -Lovington Clinic	Baker Office Products	226,766	-	Baker Office Products only	N	N/A	Hospital Clinic Furnishing for new clinic building
82814	Exterior Signage	Century Sign Builders	175,592	-	Century Sign Builders only	N	N/A	Signage for outside area of Lovington Hospital District
90814	Mammography Unit	Hologic	297,500	-	Hologic only	N	N/A	Mammo Unit for Radiology Department
81014	Lovington Medical Clinic Furniture	Beck Total Office Interiors	203,222	-	RG Contract Furnishing and Baker Office Products	N	N/A	Lovington Medical Clinic Furnishings
90814	X-Ray Equipment	Triple X-Ray Inc.	119,775	-	Triple X-Ray Inc.	N	N/A	X-ray Equipment for Radiology Department-Lovington Clinic
121514	Echo-Vascular Ultrasound	GE HealthCare	130,030	-	Phillips Healthcare	N	N/A	New Echo-Unit for Radiology Department

**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. Timothy Keller
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 Nor-Lea Hospital District (the "Hospital"), a political subdivision of the State of New Mexico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents, and the Schedule of Revenues and Expenses with Budget Comparison ("budget comparison"), presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2015, and have issued our report thereon dated October 15, 2015.

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.

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

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.

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, 2015

**NOR-LEA HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

Other Findings, as Required by State Statute, Section 12-6-5, NMSA 1978

There are no current year or prior year state compliance or operational findings to report.

**NOR-LEA HOSPITAL DISTRICT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2015**

We held an exit conference with management and a member of the Board of Trustees on September 4, 2015. The exit conference was attended by the following individuals:

Nor-Lea Hospital District

David Shaw, Chief Executive Officer
Allyson Roberts, Chief Financial Officer
Julia Myers, Board Member

Moss Adams LLP

Josh Lewis, Senior Manager
Sujan Bhandari, Senior

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