

# **Nor-Lea Hospital District**

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2017 and 2016



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Nor-Lea Hospital District**  
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## **INTRODUCTORY SECTION**

**Nor-Lea Hospital District  
Board of Trustees and Principal Employee  
June 30, 2017**

***Board of Trustees***

Agustin Dorado	Chairman
Pat Wise	Secretary
Rita Staton	Member
Manuel Quiroz	Member
Julia Ann Myers	Member

***Principal Employee***

David Shaw	Administrator
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**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

### **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, 2017 and 2016, 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 – budget to actual of the Hospital presented as supplemental information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2017.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the schedule of revenues and expenses – budget to actual referred to above presents fairly, in all material respects, the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2017, in accordance 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 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements and the schedule of revenues and expenses – with budget to actual. The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017, 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 for the year ended June 30, 2017. We issued a similar report for the year ended June 30, 2016, dated October 7, 2016, which has not been included with the 2017 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 9, 2017



**Nor-Lea Hospital District  
Management’s Discussion and Analysis  
Years Ended June 30, 2017 and 2016**

Our discussion and analysis of Nor-Lea Hospital District’s (the Hospital) financial performance provides an overview of the Hospital’s financial activities for the fiscal years ended June 30, 2017 and 2016. 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. The Hospital 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 \$10,212,157 or 14.8% increase in 2015, a \$3,584,262 or 4.5% increase in 2016, and a \$7,020,427 or 8.5% increase in 2017.
- The Hospital reported an operating income of \$5,222,005 in 2015, an operating loss of \$241,225 in 2016, and an operating income of \$3,162,087 in 2017.
- Net patient service revenue increased in each of the past three years. The net patient service revenue increased in 2015 by \$7,816,596 or 15.1%, increased in 2016 by \$8,368,234 or 14.1%, and increased in 2017 by \$7,257,064 or 10.7%.
- Nonoperating revenue decreased in 2015 by \$371,234 or 7.9%, decreased in 2016 by \$491,415 or 11.4% and decreased in 2017 by \$174,932 or 4.6%.

**Using This Annual Report**

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

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report the Hospital’s net position and changes in it. 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’s 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.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**The Statements 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 \$10,212,157 (14.8%) in 2015, \$3,584,262 (4.5%) in 2016, and \$7,020,427 (8.5%) in 2017, as you can see from Table 1.

**Table 1: Assets, Liabilities, and Net Position**

	2017	2016	2015
<i>Assets</i>			
Current assets	\$ 38,469,683	\$ 34,276,303	\$ 37,072,845
Capital assets, net	59,561,351	57,551,385	48,485,109
Other noncurrent assets	10,002,535	-	-
<b>Total assets</b>	<b>\$ 108,033,569</b>	<b>\$ 91,827,688</b>	<b>\$ 85,557,954</b>
<i>Liabilities</i>			
Long-term debt outstanding	\$ 10,463,008	\$ 824,505	\$ 1,242,832
Other current liabilities	7,565,059	8,018,108	4,914,309
<b>Total liabilities</b>	<b>18,028,067</b>	<b>8,842,613</b>	<b>6,157,141</b>
<i>Net position</i>			
Investment in capital assets, net of related debt	58,790,200	55,582,877	47,169,563
Restricted	243,428	210,828	211,983
Unrestricted	30,971,874	27,191,370	32,019,267
<b>Total net position</b>	<b>90,005,502</b>	<b>82,985,075</b>	<b>79,400,813</b>
<b>Total liabilities and net position</b>	<b>\$ 108,033,569</b>	<b>\$ 91,827,688</b>	<b>\$ 85,557,954</b>

A significant component of the change in the Hospital's assets is the increase in net patient service revenue for 2015, 2016, and 2017. The net patient service revenue increased by \$7,816,596 in 2015, \$8,368,234 in 2016, and \$7,257,064 in 2017. The increase in net patient service revenue allowed the Hospital to grow the cash balance and purchase capital assets and expand the facilities through construction. During 2015, 2016, and 2017 the Hospital did receive 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 \$2,391,176 in 2015, \$2,109,313 in 2016, and \$1,855,831 in 2017. Gross days in accounts receivable decreased in years 2015 and 2016 and increased in year 2017.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**The Hospital's Net Position (continued)**

The gross days in accounts receivable were 58 in 2015, 51 in 2016, and 54 in 2017. The receivable/payable for estimated third-party settlements relating to open cost reports has changed in each of the years 2015, 2016, and 2017. There was a net receivable of \$428,402 in 2015, a net payable of \$392,784 in 2016, and a net receivable of \$1,206,807 in 2017. Funds were expended during 2017 for the facility construction projects along with other capital equipment needs for a total of \$6,356,283. Even with these capital expenditures, unrestricted cash and cash equivalents increased by \$1,677,959 in 2017. The outstanding current payable for construction draw payments for 2017 was \$196,043 and \$1,102,507 for 2016. The days in accounts payable without construction payables were 24 for 2017 and 16 for 2016.

**Operating Results and Changes in the Hospital's Net Position**

In 2017, the Hospital's net position increased by 7,020,427 or 8.5%, as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Position**

	2017	2016	2015
<i>Operating revenues</i>			
Net patient service revenue	\$ 75,147,005	\$ 67,889,941	\$ 59,521,707
Other operating revenue	2,236,318	2,317,695	2,598,398
<b>Total operating revenues</b>	<b>77,383,323</b>	<b>70,207,636</b>	<b>62,120,105</b>
<i>Operating expenses</i>			
Salaries and benefits	40,762,364	37,888,079	30,097,497
Purchased services and other	12,094,515	11,650,565	9,951,671
Supplies	14,618,420	13,882,770	11,256,628
Professional fees	1,481,344	2,221,948	1,381,155
Depreciation and amortization	4,346,317	3,976,708	3,595,450
Insurance	918,276	828,791	615,699
<b>Total operating expenses</b>	<b>74,221,236</b>	<b>70,448,861</b>	<b>56,898,100</b>
<i>Operating income (loss)</i>	<b>3,162,087</b>	(241,225)	5,222,005
<i>Nonoperating revenues (expenses)</i>			
Mill levy	2,876,410	3,008,366	3,499,815
Investment income	74,225	117,059	81,831
Gain on sale of capital assets	-	23,962	8,124
Noncapital grants and contributions	711,173	687,089	741,645
Interest expense	(11,253)	(10,989)	(14,513)
<b>Total nonoperating revenues, net</b>	<b>3,650,555</b>	<b>3,825,487</b>	<b>4,316,902</b>
Excess of revenues over expenses before capital grants and contributions	<b>6,812,642</b>	3,584,262	9,538,907
<b>Capital grants and contributions</b>	<b>207,785</b>	-	673,250
Change in net position	<b>7,020,427</b>	3,584,262	10,212,157
Net position, beginning of year	<b>82,985,075</b>	79,400,813	69,188,656
<b>Net position, end of year</b>	<b>\$ 90,005,502</b>	\$ 82,985,075	\$ 79,400,813

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**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 \$5,222,005 in 2015, operating loss of \$241,225 in 2016, and operating income of \$3,162,087 in 2017. 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, 2011, and 2016 being the only years reporting an operating loss since 2003.

The primary components of operating results are:

- Net patient service revenue increased in each of the past three years. The net patient service revenue increased by \$7,816,596 (15.1%) in 2015, increased by \$8,368,234 (14.1%) in 2016, and then increased in 2017 by \$7,257,064 (10.7%).
- During 2015, the outpatient visits grew by 6.6%. One of the areas with significant growth 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%. The rheumatology program expanded the number of days per month from four days to five days in March 2014 and from five days to six days in November 2014. This resulted in a 34.6% growth in procedures.
- In 2016, the Hospital experienced a significant strategic growth rate of 16.01% as compared to the previous year statistics. There were some key factors that contributed to this overall growth. The new 20 provider Lovington Clinic opened in December 2014 with 10.95% more patient encounters in 2016 as compared to 2015. The Behavioral Health Clinic opened in December 2014 as well and had 3,312 patient encounters in 2016 as compared to 895 in 2015. The Hobbs Medical Clinic opened in December 2015 and had 6,388 patient encounters in the last 6 months of the year. The new expanded services offered by these clinics added to the overall outpatient visits with a growth of 13.3% in outpatient visits for 2016. As with any new service or clinic, there are initial start-up costs in supplies and purchased services. There are also increases in staffing costs as a percentage of patient revenues until efficient and productive processes can be established.
- In 2017, the Hospital had continued growth in volume with a 10.63% strategic growth rate as compared to the previous year's statistics. The Hobbs Medical Clinic and Hobbs Specialty Clinic had total encounters for the 12 months of 19,728 as compared to the previous year encounters of 6,388. The clinics were in operation a full year in 2017 after opening December 2015 and only being in operation 6 months in 2016. This was an increase of 13,340 encounters which is more than double the previous year. This increase contributed to the growth in ancillary outpatient visits which grew 11.19% from the previous year. Also with the addition of the hospitalist program at Nor-Lea, the inpatient equivalent days showed an overall growth of 19.84%. During 2017 there were 2,651 inpatient equivalent days as compared to 2,212 days in 2016.
- 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 service 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 SNCP approved by CMS. The additional operating revenue generated in 2015 was \$2,391,176, 2016 was \$2,109,313, and in 2017 it was \$1,855,831.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Operating Income (continued)**

- 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 34.64% in 2015, 33.74% in 2016, and 33.00% in 2017.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. A mill levy, approved by the voters of the Lovington and Tatum school districts, expires on various dates. A 1.5 mill levy was approved in 2017 for four years and a 2.5 mill levy was approved in 2015 for four years. The next mill levy election is in 2019. 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 and gas production and equipment. Mill levy property taxes are levied on November 1 and are due in two payments by November 10 and April 10. 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 61.6% in 2015, 45.3% in 2016, and 40.8% in 2017, can fluctuate from year to year depending upon the current economy.

**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 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. During 2016, the Hospital received the following grant funds: trauma grants totaling \$85,080, emergency preparedness grant funds of \$8,471, asthma grant funds of \$9,050, SHIP grant funds of \$7,425 and Hospital Engagement Network project funds of \$2,500. During 2017, the Hospital received the following grant funds: trauma grants totaling \$47,113, emergency preparedness grant funds of \$4,966, asthma grant funds of \$9,950, SHIP grant funds of \$8,212, ACO grant funds of \$84,855, a School-Based Clinic grant of \$25,000, and High Risk Prenatal Project funds of \$7,500. The Hospital also received DFA Capital Project Appropriation funds in 2017 of \$207,785.

The Hospital receives grant funding through the state in the form of a Rural Health Primary Care Association Grant (RHPCA) which is to supplement the rural health clinics for the indigent and uninsured. During 2015, the Hospital received \$240,500 in RHPCA Grant funds. In 2016 and 2017 the Hospital's RHPCA Grant funds were cut by the State of New Mexico due to budget cuts, and the Hospital only received \$214,400 in 2016 and \$215,500 in 2017.

The Hospital established a foundation to assist the Hospital in its mission and vision. All decisions regarding the funds generated by Nor-Lea Foundation (the Foundation) are made by the Foundation 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. As a supporting organization, the activity of the Foundation and its ending cash balance are combined in the audited financial statements. During the years ended June 30, 2015, 2016, and 2017, the Hospital received donations (restricted and unrestricted) of \$105,070, \$126,330, and \$111,774, respectively.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**The Hospital Cash Flows**

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

**Capital Asset and Debt Administration**

**Capital Assets**

The Hospital began the design of a new Lovington Clinic expansion project during year ended 2013 and expended \$17,324,604 through June 30, 2017, with an additional \$1,839,683 spent on furniture and equipment. The new Lovington Clinic was opened for patients December 2014. The new square footage added was approximately 50,000 square feet and is currently 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 were also remodeled to relocate services to create better patient flow for the specialists and the laboratory, and a new human resource area was created to include new education conference rooms.

In 2015, the Hospital began the design and development of the inpatient services area which added approximately 13,000 square feet to the existing building. This expansion provided 25 private rooms along with additional storage and work areas for staff. Included in this project was the remodel of the old Lovington Clinic space which now houses the specialty physician services: The Professional Physician Center. Additional areas were remodeled for the pain clinic, allergy clinic, ER nursing station, and sleep study/neurology services. The Hospital expended \$13,283,455 through June 30, 2017, with an additional \$178,568 spent on furniture and equipment. The new inpatient floor was opened in February 2016 with all of the renovated areas to be opened by October 2016.

The Hospital also began the design and development of a new clinic in Hobbs, New Mexico during 2015. This property is owned by Lea County and is leased to Nor-Lea for providing primary healthcare to the citizens of Hobbs. The renovation was paid by Lea County, but the architect fees, low voltage upgrades and signage were paid by Nor-Lea. Nor-Lea expended \$508,303 in total leasehold improvement capital expenditures as of June 30, 2017. This clinic opened in December 2015.

In January 2015, the Hospital began the design and development of a helicopter hangar and living quarters to house helicopter services for the district. Nor-Lea expended \$1,395,446 through June 30, 2017, and opened the facility for operation in July 2016.

The project included in Construction in Progress on the financials as of June 30, 2017, is the Lovington Wellness Center. Design and development began August 2015, and the project is scheduled for completion July 2018. This building will be approximately 50,000 square feet with adjacent soccer fields and a park. The facility will have a competition-size pool, warm therapy pool, gym, walking track, rock climbing wall, multipurpose exercise rooms, and exercise equipment. The Hospital began this project to focus on the wellness of the community and its patients as different payment methodologies are emerging as well as rural accountable care organizations.

At the end of 2015, the Hospital had \$48,485,109 invested in capital assets, net of accumulated depreciation. 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 nonoperating revenue. The construction in progress relates to the new Inpatient expansion and renovation and the Hobbs Clinic remodel.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Capital Asset and Debt Administration (continued)**

**Capital Assets (continued)**

At the end of 2016, the Hospital had \$57,551,385 invested in capital assets, net of accumulated depreciation. The Hospital purchased new equipment in the amount of \$2,048,208, spent \$9,751,239 in buildings and improvements and spent \$1,243,537 for construction in progress. The Hospital transferred into use the previous construction in progress areas of the Inpatient expansion and Hobbs Medical Clinic. The construction in progress outstanding relates to the Heliport/Hangar and the Wellness Center.

At the end of 2017, the Hospital had \$59,561,351 invested in capital assets, net of accumulated depreciation. The Hospital purchased new equipment in the amount of \$1,227,872, spent \$1,575,395 in buildings and improvements and spent \$3,553,016 for construction in progress. The Hospital transferred into use the previous construction in progress area of the Heliport/Hangar. The construction in progress outstanding relates to the Wellness Center.

**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. During 2017, the Hospital Board authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2017 in the amount of \$10,000,000. The Hospital received funding in an escrow account and entered into a credit agreement with NBH Bank for \$10,000,000 in May 2017.

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 2017 have brought the outstanding balance on the 2003 bonds to \$0, paid in full; the outstanding balance on the 2004 bonds to \$400,000, and the outstanding balance on the 2017 bonds to \$10,000,000.

Also, the Hospital had outstanding debt associated with capital leases. The outstanding capital lease debt was \$115,546 in 2015, \$66,000 in 2016, and \$124,825 in 2017.

**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Other Economic Factors**

**Primary Health Care**

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. The Hospital 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 five mid-level practitioners and five physicians. In September 2006, the Hospital added the school-based clinic which operates on the campus of the Lovington School District and offers primary care with a nurse practitioner and a LMSW, serving the students and employees of the Lovington Public Schools. During 2011, the Hospital added an evening walk-in clinic which was part of the Lovington Clinic and offered extended hours for patients. Beginning in July 2014, the Hospital experienced growth in its employed practitioners as it prepared to open its new expanded 50,000 square-foot Lovington Medical Clinic. This new clinic which opened in December 2014 provided the space for 20 practitioners, and it included a walk-in clinic designed to operate from 8:00 am to 8:00 pm Monday through Saturday. A Behavioral Health Clinic was also added to the Lovington Medical Clinic at this time and was initially staffed with one physician and one mid-level practitioner. During December 2015, the Hospital opened the Hobbs Medical Clinic and initially staffed it with two physicians and four mid-level practitioners. The four mid-level practitioners were added to open a same-day clinic operating from 8:00 am to 8:00 pm Monday through Saturday similar to the Lovington Medical Clinic. The Behavioral Health Clinic also added three mid-level practitioners during fiscal yearend 2016 to help support the need for behavioral health in Lea County. At the end of June 2017, the District had 8 physicians and 18 mid-level practitioners in the primary health clinics.

**Specialty Clinic Care**

During 2010, the District established an additional hospital-based 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 in July 2010 a cardiologist and a gastroenterologist were hired by the District along with a urologist in July 2011 and an ENT at the end of 2013. During fiscal yearend 2011 the District also added a wound care clinic as part of the specialty services. The Hospital added new specialty services in July 2015 to the Professional Physicians Center which included the addition of a women's health physician, a surgeon, and a pain specialist physician. In May 2016, a mid-level provider was also added for a rheumatology clinic, and an anesthesiologist was added to support the additional surgical requirements. At the end of June 2017, the District had nine physicians and two mid-level practitioners in the specialty clinics.

The Hospital also had two emergency room physicians and one hospitalist physician as of the end of June 2017.

**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 2017, the Hospital developed an original budget with gross patient revenue of \$203,118,521 and operating expenses of \$79,930,510. The Hospital did not have to submit an amended budget during the year.



**Nor-Lea Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2017 and 2016**

**Contacting the Hospital Financial Management**

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

**Nor-Lea Hospital District  
Statements of Net Position  
June 30, 2017 and 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 12,235,343	\$ 10,557,384
Investments	12,461,226	12,433,098
Restricted investments	243,428	210,828
Receivables:		
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$8,227,000 and \$7,420,000, respectively	8,648,528	7,479,264
Estimated third-party payor settlements	1,206,807	-
Safety net care pool	410,504	584,082
Mill levy	258,981	200,266
Grants	346,795	130,834
Other	896,963	689,321
Prepaid expenses	913,078	912,083
Inventories	848,030	1,079,143
<b>Total current assets</b>	<b>38,469,683</b>	<b>34,276,303</b>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	10,002,535	-
Capital assets, net	59,561,351	57,551,385
<b>Total noncurrent assets</b>	<b>69,563,886</b>	<b>57,551,385</b>
<b>Total assets</b>	<b>\$ 108,033,569</b>	<b>\$ 91,827,688</b>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 3,642,839	\$ 2,221,410
Accounts payable, capital	196,043	1,102,507
Accrued compensation and related liabilities	3,611,542	4,259,911
Accrued interest payable	52,818	-
Estimated third-party payor settlements	-	392,784
Current portion of long-term debt	61,817	41,496
<b>Total current liabilities</b>	<b>7,565,059</b>	<b>8,018,108</b>
<i>Noncurrent liabilities</i>		
Long-term debt	10,463,008	824,505
<b>Total liabilities</b>	<b>18,028,067</b>	<b>8,842,613</b>
<i>Net position</i>		
Net investment in capital assets	58,790,200	55,582,877
Restricted	243,428	210,828
Unrestricted	30,971,874	27,191,370
<b>Total net position</b>	<b>90,005,502</b>	<b>82,985,075</b>
<b>Total liabilities and net position</b>	<b>\$ 108,033,569</b>	<b>\$ 91,827,688</b>

See accompanying notes to basic financial statements.

**Nor-Lea Hospital District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$8,291,951 and \$8,754,789, respectively	\$ 75,147,005	\$ 67,889,941
Patient safety net care pool	1,855,831	2,109,313
Other	380,487	208,382
<b>Total operating revenues</b>	<b>77,383,323</b>	<b>70,207,636</b>
<i>Operating expenses</i>		
Salaries and wages	31,734,788	29,541,710
Employee benefits	9,027,576	8,346,369
Supplies	14,618,420	13,882,770
Purchased services	8,190,919	7,593,903
Depreciation and amortization	4,346,317	3,976,708
Other	2,145,911	2,340,051
Professional fees	1,481,344	2,221,948
Leases and rentals	1,161,776	1,149,950
Insurance	918,276	828,791
Utilities	595,909	566,661
<b>Total operating expenses</b>	<b>74,221,236</b>	<b>70,448,861</b>
<b>Operating income (loss)</b>	<b>3,162,087</b>	<b>(241,225)</b>
<i>Nonoperating revenues (expenses)</i>		
Mill levy revenue	2,876,410	3,008,366
Investment income	74,225	117,059
Noncapital grants, contributions, and other	711,173	711,051
Interest expense	(11,253)	(10,989)
<b>Total nonoperating revenues, net</b>	<b>3,650,555</b>	<b>3,825,487</b>
<b>Excess of revenues over expenses before capital grants and contributions</b>	<b>6,812,642</b>	<b>3,584,262</b>
<b>Capital grants and contributions</b>	<b>207,785</b>	<b>-</b>
<b>Change in net position</b>	<b>7,020,427</b>	<b>3,584,262</b>
<b>Net position, beginning of year</b>	<b>82,985,075</b>	<b>79,400,813</b>
<b>Net position, end of year</b>	<b>\$ 90,005,502</b>	<b>\$ 82,985,075</b>

See accompanying notes to basic financial statements.

**Nor-Lea Hospital District**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 72,378,150	\$ 68,491,521
Cash received from safety net care pool	2,029,409	2,241,084
Cash received from other revenue	172,845	1,681
Cash paid to and on behalf of employees	(41,410,733)	(36,586,655)
Cash paid to suppliers and contractors	(27,461,008)	(28,879,800)
Net cash provided by operating activities	5,708,663	5,267,831
<i>Cash flows from noncapital financing activities</i>		
Cash received from mill levies	2,817,695	3,076,549
Cash received from noncapital grants and contributions	432,512	1,160,439
Net cash provided by noncapital financing activities	3,250,207	4,236,988
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(471,576)	(476,419)
Proceeds from issuance of long-term debt	10,000,000	-
Interest paid on long-term debt	(11,253)	(10,989)
Capital grant	207,785	-
Purchase of capital assets	(7,079,529)	(11,913,603)
Net cash provided by (used in) capital and related financing activities	2,645,427	(12,401,011)
<i>Cash flows from investing activities</i>		
Purchase of investments	(60,728)	(109,781)
Cash received from investment income	136,925	124,629
Net cash provided by investing activities	76,197	14,848
Net increase (decrease) in cash and cash equivalents	11,680,494	(2,881,344)
Cash and cash equivalents, beginning of year	10,557,384	13,438,728
<b>Cash and cash equivalents, end of year</b>	<b>\$ 22,237,878</b>	<b>\$ 10,557,384</b>

*See accompanying notes to basic financial statements.*

**Nor-Lea Hospital District**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<b><i>Reconciliation of cash and cash equivalents to the statement of net position</i></b>		
Cash and cash equivalents	\$ 12,235,343	\$ 10,557,384
Restricted cash and cash equivalents	10,002,535	-
<b>Total cash and cash equivalents</b>	<b>\$ 22,237,878</b>	<b>\$ 10,557,384</b>
<b><i>Reconciliation of operating income (loss) to net cash provided by operating activities</i></b>		
Operating income (loss)	\$ 3,162,087	\$ (241,225)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	4,346,317	3,976,708
Provision for bad debts	8,291,951	8,754,789
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(9,461,215)	(8,974,395)
Estimated third-party payor settlements	(1,206,807)	428,402
Patient safety net care pool	173,578	131,771
Other	(207,642)	(206,701)
Prepaid expenses	(995)	(375,883)
Inventories	231,113	(258,145)
Increase (decrease) in liabilities:		
Accounts payable	1,421,429	338,302
Accrued compensation and related liabilities	(648,369)	1,301,424
Estimated third-party payor settlements	(392,784)	392,784
<b>Net cash provided by operating activities</b>	<b>\$ 5,708,663</b>	<b>\$ 5,267,831</b>
<b>Additions to equipment under capital leases</b>	<b>\$ 130,400</b>	<b>\$ 26,874</b>

*See accompanying notes to basic financial statements.*

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements**  
**Years Ended June 30, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Nor-Lea Hospital District (the 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, two freestanding clinics, a school-based clinic, a dental clinic, and a durable medical equipment division. The Hospital provides healthcare 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 (the 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 the Hospital and its patients, supporters, and community. The Foundation will always exist to assist the Hospital in the provision of quality, compassionate healthcare in order to raise the standard of care and wellness in Lea County and the surrounding communities. The 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 assets as of June 30, 2017 and 2016, of \$730,833 and \$661,273, respectively. Contributions by the Foundation to the Hospital were \$0 and \$25,000 for the years ended June 30, 2017 and 2016, respectively. The Foundation can be contacted at 1600 N. Main Street, Lovington, New Mexico 88260.

**b. 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.

**Restricted investments** – Restricted investments include funds restricted as to use by donors.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. 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 nonoperating revenue when earned.

*Prepaid expenses* – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

*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.

*Restricted cash and cash equivalents* – Restricted cash and equivalents include funds restricted for the acquiring, equipping, furnishing, remodeling, and renovating of the District’s hospital facilities by National Bank Holdings (NBH) Bank in accordance with the 2017 revenue bond.

*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
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. Although construction was funded through cash in 2016, generally accepted accounting principles require interest capitalization using the rates of any outstanding borrowings. Interest costs of \$92,018 and \$58,800 for 2017 and 2016, 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.

*Net position* – The position of the Hospital is classified in three components. Net investment in capital assets consists 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 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, 2017 and 2016, the Hospital’s restricted expendable net position was comprised of unexpended donations and funds held by the Foundation. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets net of related debt or restricted.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*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.

*Operating revenues and expenses* – The Hospital’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, the Hospital’s principal activity.

Nonexchange revenues, including taxes, grants, state appropriations, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs and investment losses.

*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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Budgets and budgetary accounting* – Prior to the beginning of each fiscal year, an accrual basis budget for the Hospital is prepared by the Hospital’s management and is presented to the Board of Trustees for approval. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Trustees.

*Reclassifications* – Certain reclassifications have been made to the 2016 financial statements to conform to the classifications used in the 2017 financial statements, with no effect on previously reported change in net position.



**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**2. Deposits and Investments:**

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements:

	2017	2016	Fair Value Hierarchy
Federal Farm Credit	\$ -	\$ 250,005	Level 1, valued using quoted market prices
Freddie Mac	2,740,292	1,956,177	Level 1, valued using quoted market prices
Fannie Mae	2,234,585	-	Level 1, valued using quoted market prices
Certificates of deposit	7,335,336	10,045,363	Level 2, valued using other observable inputs
LGIP	394,441	392,381	Not applicable
<b>Total Investments</b>	<b>\$ 12,704,654</b>	<b>\$ 12,643,926</b>	

***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 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.

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

The rate of interest in nondemand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than 100% of the asked price on United States treasury bills of the same maturity on the day of deposit.

***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, 2017 and 2016, the Hospital’s bank deposits were collateralized in accordance with New Mexico State Statutes.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**2. Deposits and Investments (continued):**

**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 Moreton Capital Markets are registered in the name of the Hospital and therefore are not subject to custodial credit risk. At June 30, 2017 and 2016, the Hospital’s investment in the New MexiGROW Local Government Investment Pool (LGIP) was exposed to custodial credit risk in the amounts of \$394,441 and \$392,381, respectively.

**Credit risk** – The LGIP’s investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not U.S. Securities and Exchange Commission (SEC) registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Section 6-10-10 I through 6-10-10 P and Section 6-10-10.1 A and E, NMSA 1978. The LGIP does not have unit shares.

Per Section 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

As of June 30, 2017 and 2016, the Hospital’s investments were rated as follows:

LGIP	AAAm	(S&P)
Federal Farm Credit Bank	AA+	(S&P)
Freddie Mac	AA+	(S&P)
Fannie Mae	AA+	(S&P)

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**2. Deposits and Investments (continued):**

**Interest rate risk** – The Hospital does not have a formal policy limiting investment maturities to manage its exposure to fair value losses from increasing interest rates. The Hospital’s investments at June 30, 2017 and 2016, included the following:

	2017				
	Fair Value	Investment Maturities (in Years)			
		Less Than One	One to Five	Six to Ten	More than Ten
<i>Items subject to interest rate risk</i>					
Certificates of Deposit	\$ 7,335,336	\$ 2,706,641	\$ 4,628,695	\$ -	\$ -
Freddie Mac	2,740,292	999,920	1,740,372	-	-
Fannie Mae	2,234,585	-	2,234,585	-	-
LGIP	394,441	***			
<b>Total investments</b>	<b>\$ 12,704,654</b>	<b>\$ 3,706,561</b>	<b>\$ 8,603,652</b>	<b>\$ -</b>	<b>\$ -</b>
	2016				
	Fair Value	Investment Maturities (in Years)			
		Less Than One	One to Five	Six to Ten	More than Ten
<i>Items subject to interest rate risk</i>					
Certificates of Deposit	\$ 10,045,363	\$ 6,420,738	\$ 3,624,625	\$ -	\$ -
Federal Farm Credit	250,005	-	250,005	-	-
Freddie Mac	1,956,177	952,527	1,003,650	-	-
LGIP	392,381	***			
<b>Total investments</b>	<b>\$ 12,643,926</b>	<b>\$ 7,373,265</b>	<b>\$ 4,878,280</b>	<b>\$ -</b>	<b>\$ -</b>

\*\*\* The LGIP’s weighted average maturity at June 30, 2017 and 2016 is 58(R), 58(F) days and 44(R), 77(F) days, respectively, which is a key determinant of the tolerance of the LGIP’s investment to increase in interest rates.

**Concentration of credit risk** – The Hospital places no limit on the amount it may invest in any one issuer.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Hospital consisted of these amounts:

	<b>2017</b>	<b>2016</b>
Receivable from patients and their insurance carriers	\$ 13,075,151	\$ 11,883,074
Receivable from Medicare	2,127,730	1,714,105
Receivable from Medicaid	1,672,368	1,301,613
Total patient accounts receivable	<b>16,875,249</b>	14,898,792
Less allowance for uncollectible accounts	<b>8,226,721</b>	7,419,528
<b>Net patient accounts receivable</b>	<b>\$ 8,648,528</b>	<b>\$ 7,479,264</b>

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**4. Capital Assets:**

Capital asset additions, retirements, transfers, and balances were as follows:

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 131,806	\$ -	\$ -	\$ -	\$ 131,806
Construction in progress	1,279,252	3,553,016	-	(1,395,446)	3,436,822
Total capital assets not being depreciated	1,411,058	3,553,016	-	(1,395,446)	3,568,628
<i>Capital assets being depreciated</i>					
Buildings and improvements	66,734,688	1,575,395	-	1,395,446	69,705,529
Equipment	18,922,351	1,227,872	-	-	20,150,223
Total capital assets being depreciated	85,657,039	2,803,267	-	1,395,446	89,855,752
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(15,629,566)	(2,835,032)	-	-	(18,464,598)
Equipment	(13,887,146)	(1,511,285)	-	-	(15,398,431)
Total accumulated depreciation	(29,516,712)	(4,346,317)	-	-	(33,863,029)
Total capital assets being depreciated, net	56,140,327	(1,543,050)	-	1,395,446	55,992,723
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 57,551,385</b>	<b>\$ 2,009,966</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 59,561,351</b>

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**4. Capital Assets (continued):**

	2016				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 131,806	\$ -	\$ -	\$ -	\$ 131,806
Construction in progress	2,733,512	1,243,537	-	(2,697,797)	1,279,252
Total capital assets not being depreciated	2,865,318	1,243,537	-	(2,697,797)	1,411,058
<i>Capital assets being depreciated</i>					
Buildings and improvements	54,285,652	9,751,239	-	2,697,797	66,734,688
Equipment	16,874,143	2,048,208	-	-	18,922,351
Total capital assets being depreciated	71,159,795	11,799,447	-	2,697,797	85,657,039
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(13,159,916)	(2,469,650)	-	-	(15,629,566)
Equipment	(12,380,088)	(1,507,058)	-	-	(13,887,146)
Total accumulated depreciation	(25,540,004)	(3,976,708)	-	-	(29,516,712)
Total capital assets being depreciated, net	45,619,791	7,822,739	-	2,697,797	56,140,327
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 48,485,109</b>	<b>\$ 9,066,276</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 57,551,385</b>

Construction in progress at June 30, 2017, consists of costs relating to the Wellness Center, which is expected to be completed in the summer of 2018, with an additional cost estimated at approximately \$14,563,000.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**5. Long-Term Debt:**

A schedule of changes in the Hospital's noncurrent liabilities follows:

	2017				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
2004 Revenue bond payable	\$ 800,000	\$ -	\$ (400,000)	\$ 400,000	\$ -
2017 Revenue bond payable	-	10,000,000	-	10,000,000	-
Capital lease obligation	66,001	130,400	(71,576)	124,825	61,817
Compensated absences	1,685,806	3,061,866	(2,850,048)	1,897,624	1,897,624
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 2,551,807</b>	<b>\$ 13,192,266</b>	<b>\$ (3,321,624)</b>	<b>\$ 12,422,449</b>	<b>\$ 1,959,441</b>

  

	2016				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
2004 Revenue bond payable	\$ 1,200,000	\$ -	\$ (400,000)	\$ 800,000	\$ -
Capital lease obligation	115,546	26,874	(76,419)	66,001	41,496
Compensated absences	1,336,591	2,901,057	(2,551,842)	1,685,806	1,685,806
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 2,652,137</b>	<b>\$ 2,927,931</b>	<b>\$ (3,028,261)</b>	<b>\$ 2,551,807</b>	<b>\$ 1,727,302</b>

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2017 and 2016, 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. The Hospital 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.

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, 2017, the Hospital paid July 1, 2017 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.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**5. Long-Term Debt (continued):**

As a condition of the Nor-Lea Special Hospital Revenue Series 2004 Bond, 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 2004 Bond Indenture also requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding.

- *2017 Hospital Revenue Bond.* On March 28, 2017, the Board authorized the issuance of the Nor-Lea Special Hospital Revenue Bonds, Series 2017 (2017 Bond), in the principal amount of \$10,000,000. The Hospital entered into a credit agreement in the amount of \$10,000,000 with NBH Bank, dated May 2, 2017. Proceeds from the 2017 Bond are being used to finance construction of a Wellness Center.

The 2017 Bond bears interest at a fixed rate of 3.29%, which is payable on December 15 and June 15 of each year through June 15, 2037. Principal is payable on June 15 of each year through June 15, 2037. The first principal payment is due on June 15, 2019; accordingly, no amounts are reported as current obligation in the accompanying financial statements. The 2017 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 2017 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 2017 Bond is tax-exempt under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

As a condition of the Nor-Lea Special Hospital Revenue Series 2017 Bond, the Hospital has agreed to maintain a minimum of 75 days of cash on hand, determined as of the end of each fiscal year during the term of the bond.

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

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2018	\$ 61,817	\$ 399,146	\$ 460,963
2019	836,066	336,550	1,172,616
2020	411,942	319,159	731,101
2021	415,000	303,313	718,313
2022	425,000	289,520	714,520
2023-2027	2,350,000	1,227,993	3,577,993
2028-2032	2,770,000	814,604	3,584,604
2033-2037	3,255,000	328,178	3,583,178
<b>Total</b>	<b>\$ 10,524,825</b>	<b>\$ 4,018,463</b>	<b>\$ 14,543,288</b>

The Hospital incurred \$103,271 and \$69,789 in interest costs related to debt and capital leases during the years ended June 30, 2017 and 2016, respectively.



**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**6. 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 who 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. The Hospital's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2017</b>	<b>2016</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 23,359,227	\$ 19,258,998
Medicaid	13,313,735	11,301,037
Other third-party payors	39,677,639	38,664,732
Patients	7,941,880	8,989,862
	<b>84,292,481</b>	78,214,629
Less:		
Charity care	853,525	1,569,899
Provision for bad debts	8,291,951	8,754,789
<b>Net patient service revenue</b>	<b>\$ 75,147,005</b>	<b>\$ 67,889,941</b>

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**6. Net Patient Service Revenue (continued):**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The Hospital has been designated a critical access hospital by Medicare. The Hospital is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The rural health clinics are also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.
- *Medicaid/Centennial Care* – The State of New Mexico (the State) administers its Medicaid program through contracts with several Managed Care Organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. The State pays each MCO a per-member per-month rate based on their current enrollment. These amounts are allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers. As a result, the MCOs assume the financial risk of providing healthcare to its members.

Through the Hospital's contracts with MCOs, inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and discounted fee schedules. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Behavioral services provided to Medicaid program beneficiaries are paid under a fee schedule methodology.

- *Safety Net Care Pool Program* – Provides for a county-imposed tax of one-sixteenth percent of gross receipts be permanently transferred to the "Safety Net Care Pool Fund" and expended pursuant to the Indigent Hospital and County Health Care Act. The law allows counties to budget for expenditures on ambulance services, burial expenses, and hospital or medical expenses for indigent residents of their county. The law requires that qualifying hospitals receiving payment from the Safety Net Care Pool file a quarterly report on all indigent healthcare funding with the Human Services Department (HSD) and the County Commission, and the HSD to submit a quarterly report to the Legislative Finance Committee containing the previous quarter's Safety Net Care Pool Fund receipts and the disposition of funds.

The Hospital receives interim quarterly payments subject to settlement based on actual uncompensated care costs. The Hospital estimates the settlement amounts for each calendar year. There is a reasonable possibility that recorded estimates will change by a material amount. The safety net care pool funding decreased by approximately \$211,000 and increased by approximately \$186,000 in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

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

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**6. Net Patient Service Revenue (continued):**

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue increased approximately \$440,000 and decreased approximately \$140,000 in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

The Hospital provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Hospital's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net patient service revenues or in the allowance for uncollectible accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2017 and 2016, were approximately \$330,000 and \$644,000, respectively. The Hospital did not receive any gifts or grants to subsidize charity care services during 2017 and 2016. The safety net care pool subsidizes services to uninsured patients and unreimbursed Medicaid costs.

**7. Mill Levies:**

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 mill levy, scheduled to expire on December 31, 2021, and an annual 2.5 mill levy, expiring on December 31, 2019. The Hospital recorded mill levy revenues of \$2,876,410 and \$3,008,366 for the years ended June 30, 2017 and 2016, respectively. Mill levy revenues are used in accordance with the provisions of the property tax referendum.

Mill levy property taxes are levied based on the assessed value of the property in the Lovington and Tatum school districts as well as on the value of oil and gas production and equipment. Mill levy property taxes are levied on November 1, based on the assessed value of property as listed on the previous January 1. Assessed values are established by the Lea County Assessor at 100% of fair market values. Taxes are due in two equal payments by November 10 and April 10 of each year. The taxes attach as an enforceable lien on property thirty days after their due date, at which time they become delinquent. The Hospital's share of collections is distributed monthly to the Hospital by the Treasurer of Lea County, who serves as the intermediary collecting agency. The Hospital does not maintain detailed records of mill levy taxes receivable by the individual taxpayer.

**8. Employee Retirement Plan:**

The Nor-Lea Hospital District 403(b) defined contribution employee retirement plan (the Plan) covers employees who have completed one year of service, have attained the age of 21, and normally work greater than 20 hours per week. The Plan provides for Hospital contributions of 100% of eligible employees' deferred compensation up to 4% of such employees' compensation. Benefit and contribution terms may be amended by the Hospital in accordance with Section 403(b) of the Internal Revenue Code. Hospital contributions to the Plan totaled \$768,058 and \$636,630 for the years ended June 30, 2017 and 2016, respectively, and are fully vested when made. Employees may also elect to make contributions to the Plan. Total employee contributions to the Plan totaled \$1,300,547 and \$997,994 for the years ended June 30, 2017 and 2016, respectively.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**9. Commitments and Contingencies:**

***Compliance with laws and regulations*** – The healthcare 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 healthcare 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare 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.

***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 any of the three preceding years.

***Professional liability insurance*** – Pursuant to the Federal Risk Retention Act and under the captive insurance hospital provisions of Vermont law, the Hospital is insured with Yellowstone Insurance Exchange, Risk Retention Group (the Exchange) 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 medical malpractice coverage for its physicians. The coverage is claims-made and covers individual physician claims of up to \$1,000,000, subject to a \$3,000,000 annual aggregate limit. The policy has a \$25,000 deductible per claim.

***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 healthcare entities.

***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, 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, and is included in accrued compensation and related liabilities in the accompanying financial statements.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**9. Commitments and Contingencies (continued):**

Changes in the Hospital's employee health insurance liability were as follows:

	<b>2017</b>	<b>2016</b>
Claim liability, beginning of year	\$ 1,103,537	\$ 622,158
Current year claims and changes in estimates	4,211,409	4,102,250
Claims payments	(4,807,757)	(3,620,871)
Claim liability, end of year	\$ 507,189	\$ 1,103,537

**10. Concentrations of Credit Risk:**

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

	<b>2017</b>	<b>2016</b>
Medicare	20 %	20 %
Medicaid	20	17
Patients	31	35
Commercial and other	29	28
	<b>100 %</b>	<b>100 %</b>

**Physicians** – The Hospital is dependent on local physicians in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or a change in their utilization patterns may have an adverse effect on the Hospital's operations.

**Nor-Lea Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2017 and 2016**

**11. 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, 2017 and 2016.

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, 2017, to extend the term to February 28, 2018. 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. The Hospital incurred the following expenses under this management relationship:

	<b>2017</b>	<b>2016</b>
Management fees	\$ 314,573	\$ 313,446
Purchase of goods and services	774,420	710,876
<b>Total</b>	<b>\$ 1,088,993</b>	<b>\$ 1,024,322</b>

The above amounts include \$24,198 and \$0 outstanding at June 30, 2017 and 2016, respectively, 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.

**SUPPLEMENTAL INFORMATION**

**Nor-Lea Hospital District  
Schedule of Pledged Collateral  
June 30, 2017**

	<b>Wells Fargo Bank</b>	<b>Lea County State Bank Hospital</b>	<b>NBH Bank/ Community Banks of CO</b>	<b>Moreton Capital Markets*</b>	<b>Lea County State Bank Foundation</b>	<b>BOKF, National Association</b>	<b>United Bank</b>	<b>Amarillo National Bank</b>
Deposits at June 30, 2016	\$ 12,484,191	\$ 424,196	\$ 10,002,535	\$ 6,735,336	\$ 130,623	\$ 246,000	\$ 246,000	\$ 108,000
Less: CDs held by Moreton Capital Markets and fully insured under FDIC limits	-	-	-	6,755,000	-	-	-	-
Less: FDIC insurance	250,000	250,000	250,000	-	250,000	250,000	250,000	250,000
Uninsured public funds	12,234,191	174,196	9,752,535	-	-	-	-	-
<b>Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name</b>	<b>6,571,583</b>	<b>518,795</b>	<b>10,600,382</b>					
Total uninsured and uncollateralized public funds	\$ 5,662,608	\$ -	\$ -					
50% pledged collateral requirement per statute	\$ 6,117,096	\$ 87,098	\$ 4,876,268					
Total pledged collateral	6,571,583	518,795	10,600,382					
<b>Pledged collateral over the requirement</b>	<b>\$ 454,487</b>	<b>\$ 431,697</b>	<b>\$ 5,724,114</b>					
<b>BNY Mellon</b>	<b>Fair Value</b>							
FNMA FNMS, 3138E2NA9, matures December 1, 2026	\$ 6,287,264							
FNMA FNMS, 3140F2P53, matures May 1, 2031	284,319							
<b>Total pledged securities</b>	<b>\$ 6,571,583</b>							
<b>Lea County State Bank</b>	<b>Fair Value</b>							
BELEN NM, 077581PN0, matures August 1, 2020	\$ 202,166							
JAL NM, 470143AES, matures October 1, 2020	316,629							
<b>Total pledged securities</b>	<b>\$ 518,795</b>							
<b>NBH Bank</b>	<b>Fair Value</b>							
FNMI2148 DM, 3136ABNV1, matures January 25, 2028	\$ 10,600,382							
<b>Total pledged securities</b>	<b>\$ 10,600,382</b>							

\*Moreton Capital Markets includes deposits held in a variety of financial institutions yet reported through Moreton Capital Markets.  
The collective FDIC insurance coverage is included in Moreton Capital Markets column.

*See accompanying independent auditors' report.*



**Nor-Lea Hospital District**  
**Schedule of Individual Deposit and Investment Accounts**  
**June 30, 2017**

<b>Depository</b>	<b>Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Reconciling Items</b>	<b>Book Balance</b>
<b>Deposits</b>					
Wells Fargo Bank	Operating	Non-interest bearing checking	\$ 12,478,629	\$ (802,425)	\$ 11,676,204
Wells Fargo Bank	Construction	Non-interest bearing checking	5,562	-	5,562
Lea County State Bank	Checking	Non-interest bearing checking	424,196	(10,680)	413,516
Lea County State Bank	Foundation	Interest bearing checking	130,623	-	130,623
NBH Bank, Community Banks of CO	Escrow Fund	Interest bearing escrow account	10,002,535	-	10,002,535
BOKF, National Association	Foundation Investments	Certificates of Deposit	246,000	-	246,000
United Bank	Foundation Investments	Certificates of Deposit	246,000	-	246,000
Amarillo National Bank	Foundation Investments	Certificates of Deposit	108,000	-	108,000
Moreton Capital Markets*	Capital Markets	Certificates of Deposit	6,735,336	-	6,735,336
<b>Cash on Hand</b>	Petty cash	Petty cash	4,548	-	4,548
<b>Investments</b>					
Moreton Capital Markets	Capital Markets	Freddie Mac (FHLMC)	2,740,292	-	2,740,292
Moreton Capital Markets	Capital Markets	Fannie Mae	2,234,585	-	2,234,585
Moreton Capital Markets	Capital Markets	Money Market	4,890	-	4,890
NM State Treasurer Investment Pool	LGIP	State Treasurer LGIP	394,167	274	394,441
<b>Total deposits and investments</b>			<b>\$ 35,755,363</b>	<b>\$ (812,831)</b>	<b>\$ 34,942,532</b>
Reconciliation to the Statement of Net Position					
Cash and cash equivalents					\$ 12,235,343
Restricted cash and cash equivalents					10,002,535
Investments					12,461,226
Restricted investments					243,428
<b>Total deposits and investments as of June 30, 2017</b>					<b>\$ 34,942,532</b>

\*Moreton Capital Markets includes deposits and investments held in a variety of financial institutions yet reported through Moreton Capital Markets.

*See accompanying independent auditors' report*

**Nor-Lea Hospital District**  
**Schedule of Revenues and Expenses - Budget to Actual**  
**Year Ended June 30, 2017**

	<b>Actual</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Final Budget - Favorable (Unfavorable)</b>
<i>Patient Revenue</i>				
Inpatient	\$ 7,605,947	\$ 7,042,794	\$ 7,042,794	\$ 563,153
Outpatient	182,173,256	195,075,727	195,075,727	(12,902,471)
Other patient revenue	2,374,940	1,000,000	1,000,000	1,374,940
Total gross patient revenue	192,154,143	203,118,521	203,118,521	(10,964,378)
Contractual allowance	(108,715,187)	(111,638,010)	(111,638,010)	2,922,823
Provision for bad debts	(8,291,951)	(10,382,035)	(10,382,035)	2,090,084
Net patient service revenue	75,147,005	81,098,476	81,098,476	\$ (5,951,471)
<i>Other Revenue</i>				
Other	2,236,318	2,715,000	2,715,000	(478,682)
Total revenue	77,383,323	83,813,476	83,813,476	(6,430,153)
<i>Expenses</i>				
Salaries and wages and employee benefits	40,762,364	44,684,538	44,684,538	3,922,174
Purchased services and other	12,094,515	12,645,579	12,645,579	551,064
Supplies	14,618,420	16,148,477	16,148,477	1,530,057
Professional fees	1,481,344	723,216	723,216	(758,128)
Depreciation and amortization	4,346,317	4,756,000	4,756,000	409,683
Insurance	918,276	972,700	972,700	54,424
Total expenses	74,221,236	79,930,510	79,930,510	5,709,274
Operating income	3,162,087	3,882,966	3,882,966	(720,879)
Nonoperating revenues and expenses				
Mill levy revenue	2,876,410	3,000,000	3,000,000	(123,590)
Investment income	74,225	110,000	110,000	(35,775)
Noncapital grants, contributions, and other	711,173	721,882	721,882	(10,709)
Interest expense	(11,253)	(86,853)	(86,853)	75,600
	3,650,555	3,745,029	3,745,029	(94,474)
Excess of revenues over expenses before capital grants and contributions	\$ <b>6,812,642</b>	\$ <b>7,627,995</b>	\$ <b>7,627,995</b>	\$ <b>(815,353)</b>

*See accompanying independent auditors' report.*

**Nor-Lea Hospital District  
Indigent Care Cost and Funding Report  
Year Ended June 30, 2017**

	<b>For years ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>A Funding for Indigent Care</b>			
A1 State appropriations specified for indigent care - Out of County Indigent Fund	\$ -	\$ -	\$ -
A2 County indigent funds received	-	-	-
A3 Out of county indigent funds received	-	-	-
A4 Payments and copayments received from uninsured patients qualifying for indigent care	5,580	34,910	10,578
A5 Reimbursement received for services provided to patients qualifying for coverage under EMSA	15,920	68,723	15,273
A6 Charitable contributions received from donors that are designated for funding indigent care Other Sources	-	-	-
A7 Other source 1 (if applicable)	-	-	-
Total Funding for Indigent Care	<u>21,500</u>	<u>103,633</u>	<u>25,851</u>
<b>B Cost of Providing Indigent Care</b>			
Total cost of care for providing services to:			
B1 Uninsured patients qualifying for indigent care	122,711	231,947	96,646
B2 Patients qualifying for coverage under EMSA	50,157	68,635	8,472
B3 Cost of care related to patients portion of bill for insured patients qualifying for indigent care	73,536	77,502	30,624
B4 Direct costs paid to other providers on behalf of patients qualifying for indigent care	<u>22,198</u>	<u>10,531</u>	<u>1,992</u>
Total Cost of Providing Indigent Care	<u>268,602</u>	<u>388,615</u>	<u>137,734</u>
<b>Excess (Shortfall) of Funding for Indigent Care to Cost of Providing Indigent Care</b>	<b>\$ <u>(247,102)</u></b>	<b>\$ <u>(284,982)</u></b>	<b>\$ <u>(111,883)</u></b>
<b>C Patient Receiving Indigent Care Services</b>			
C1 Total number of patients receiving indigent care	261	246	100
C2 Total number of patients encounters receiving indigent care	674	597	266

*See accompanying independent auditors' report.*

**Nor-Lea Hospital District  
Indigent Care Cost and Funding Report (Continued)  
Year Ended June 30, 2017**

	<u>For years ended June 30,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Uninsured patients qualifying for indigent care</b>			
Charges for these patients	\$ 314,643	\$ 565,724	\$ 241,614
Ratio of cost to charges	39%	41%	40%
Cost for uninsured patients qualifying for indigent care	<u>\$ 122,711</u>	<u>\$ 231,947</u>	<u>\$ 96,646</u>
<b>Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)</b>			
Charges for these patients	\$ 128,607	\$ 167,402	\$ 21,181
Ratio of cost to charges	39%	41%	40%
Cost for patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	<u>\$ 50,157</u>	<u>\$ 68,635</u>	<u>\$ 8,472</u>
<b>Cost of care related to patient portion of bill for insured patients qualifying for indigent care</b>			
Indigent care adjustments for these patients	\$ 188,555	\$ 189,030	\$ 76,559
Ratio of cost to charges	39%	41%	40%
Cost of care related to patients portion of bill for insured patients qualifying for indigent care	<u>\$ 73,536</u>	<u>\$ 77,502</u>	<u>\$ 30,624</u>
<b>Direct costs paid to other providers on behalf of patients qualifying for indigent care</b>			
Payments to other providers for care of these patients	<u>\$ 22,198</u>	<u>\$ 10,531</u>	<u>\$ 1,992</u>

*See accompanying independent auditors' report.*



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Nor-Lea Hospital District (the Hospital), as of and for the year ended June 30, 2017, 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 - budget to actual (budget comparison), presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2017, and have issued our report thereon dated October 9, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion 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 the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 9, 2017

**Nor-Lea Hospital District  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2017**

The audit for the year ended June 30, 2016, reported no audit findings, nor were there any unresolved findings from periods ended June 30, 2015, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2017.

**Nor-Lea Hospital District  
Exit Conference  
Year Ended June 30, 2017**

An exit conference was held October 9, 2017, with management and a member of the Board of Trustees to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Pat Wise  
Allyson Roberts  
Megan Stantus

Board of Trustees  
Chief Financial Officer  
Dingus, Zarecor & Associates PLLC

These financial statements were prepared by Dingus, Zarecor & Associates PLLC from records of the Hospital.