

Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2009 and 2008

Sierra Vista Hospital
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Sierra Vista Hospital
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INTRODUCTORY SECTION

**Sierra Vista Hospital
Governing Board and Principal Employees
June 30, 2009**

County of Sierra, New Mexico, Representative

Eunice Kent, Chairperson
Nadyne Gardner Daves
Barry Ragsdale

City of Truth or Consequences, New Mexico, Representative

Bobby Allen, Vice Chairperson
Ann Filosa
Jack Barrett

Village of Williamsburg, New Mexico, Representative

Greg D'Amour, Secretary

Ex-officio Members

Domenica Rush, Sierra Vista Hospital Administrator
Janet Porter Carrejo, County of Sierra, New Mexico, County Manager
Jaime Aguilera, City of Truth or Consequences, New Mexico, City Manager
Renee Stamper, Village of Williamsburg, New Mexico, Village Clerk

Principal Employee

Domenica Rush, Administrator

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Joint Powers Commission, Governing Board
and Management of Sierra Vista Hospital,
and Mr. Hector H. Balderas, New Mexico State Auditor
Truth or Consequences, New Mexico

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Sierra Vista Hospital (the Hospital) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison of the Hospital for the year ended June 30, 2009, presented as supplementary information as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of June 30, 2009 and 2008, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement referred to above presents fairly, in all material respects, the budgetary comparison of the Hospital for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 4 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedules of pledged collateral are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hospital. The schedules of pledged collateral and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 13, 2009

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2009 and 2008**

Our discussion and analysis of Sierra Vista Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

Financial Highlights

- The Hospital's net assets fluctuated in each of the past two years with a \$2,029,191 or 231.5% increase in 2009 and \$328,160 or 27.2% decrease in 2008.
- The Hospital reported operating losses in both 2009 (\$67,617) and 2008 (\$1,299,489). Losses in 2009 decreased by \$1,231,872 or 308.4% over the loss reported in 2008. Operating losses in 2008 increased by \$591,045 or 83.4% over the loss reported in 2007.
- Nonoperating net revenues increased by \$207,500 or 22.3% in 2009 compared to 2008. Nonoperating net revenues increased by \$122,700 or 15.2% in 2008 compared to 2007.

Using This Annual Report

The Hospital's financial statements consist of three statements — a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement 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 Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Hospital finances begins on page 5. 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 Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's 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.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets — 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 assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement 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? What was the change in cash balance during the reporting period?"

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2009 and 2008**

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 9. The Hospital's net assets increased by \$2,029,191 or 231.5% in 2009 and decreased by \$328,160 or 27.2% in 2008, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Assets

	2009	2008	2007
<i>Assets</i>			
Current assets	\$ 3,337,444	\$ 2,714,115	\$ 2,520,271
Capital assets, net	2,193,345	1,691,772	1,788,936
Total assets	\$ 5,530,789	\$ 4,405,887	\$ 4,309,207
<i>Liabilities and net assets</i>			
Current liabilities	\$ 2,313,048	\$ 2,983,634	\$ 2,522,666
Capital lease obligations	311,872	545,575	581,703
Total liabilities	2,624,920	3,529,209	3,104,369
<i>Net assets</i>			
Invested in capital assets, net of related debt	1,742,197	924,922	975,809
Unrestricted	1,163,672	(48,244)	229,029
Total net assets	2,905,869	876,678	1,204,838
Total liabilities and net assets	\$ 5,530,789	\$ 4,405,887	\$ 4,309,207

A significant component of the change in the Hospital's assets is the increase in current assets. In 2009 current assets increased by \$623,329. The most significant change in current assets is the increase in cash of \$519,942. During 2009, net capital assets increased by \$501,573 because mammography and other new equipment was purchased. Net patient service revenue, net of provision for bad debts, increased by \$2,304,173 or 30.13% in 2009 compared to 2008 and patient accounts receivable, net of estimated uncollectible amounts, decreased by \$235,947 or 14.8% in 2009 compared to 2008.

Total assets have increased significantly in 2009 over prior years primarily due to net income. Assets for 2009 are \$1,124,902 above 2008. Total assets for 2009 consist primarily of accounts receivable and cash. Total liabilities have decreased by \$904,289 over last year due mainly to a reduction in payables and leases.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2009 and 2008**

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$2,029,191 or 231.5%, as shown in Table 2. This increase is the result of total operating revenues increasing \$2,825,825, while total operating expenses increased by \$1,593,953. Additionally, nonoperating revenues improved by \$207,500 in 2009.

Table 2. Operating Results and Changes in Net Assets

	2009	2008	2007
<i>Operating revenues</i>			
Net patient service revenue	\$ 9,951,869	\$ 7,647,696	\$ 7,543,799
Sole community provider	2,184,974	1,685,726	1,361,117
Grants and other operating revenue	142,577	101,657	77,721
Total operating revenues	12,279,420	9,435,079	8,982,637
<i>Operating expenses</i>			
Salaries, wages, and benefits	7,286,253	6,750,689	5,822,916
Supplies, insurance, and other	4,606,252	3,567,484	3,512,520
Depreciation and amortization	454,532	416,395	355,645
Total operating expenses	12,347,037	10,734,568	9,691,081
<i>Operating loss</i>	(67,617)	(1,299,489)	(708,444)
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	711,296	665,127	633,598
Sierra County 412 Fund revenue	290,000	220,000	260,000
Grant revenue	200,000	161,700	-
Contributions	2,509	-	85,337
Interest expense	(69,616)	(118,744)	(167,011)
Other, net	1,943	549	(5,992)
Total nonoperating revenues (expenses), net	1,136,132	928,632	805,932
Excess of revenues over (under) expenses before capital contributions	1,068,515	(370,857)	97,488
<i>Capital contributions</i>	960,676	42,697	42,000
Change in net assets	2,029,191	(328,160)	139,488
Net assets, beginning of year	876,678	1,204,838	1,065,350
Net assets, end of year	\$ 2,905,869	\$ 876,678	\$ 1,204,838

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2009 and 2008**

Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows

For the last three years, operating revenues and expenses have increased with patient volume. Operating revenues in 2009 have increased from 2008 by \$2,825,825 or 29.9% and 2008 increased from 2007 by \$452,442 or 5.0%. Operating expenses have increased from 2008 by \$1,593,953 or 14.8% and 2008 increased from 2007 by \$1,043,487 or 10.8%. Because revenues have increased more than expenses, our operating loss has been reduced to \$67,617 in 2009 over the operating losses of \$1,299,489 in 2008 and \$708,444 in 2007. The operating loss in 2009 is offset in large part by the nonoperating revenues of \$1,136,132.

Changes in volumes over the last three years have led to increases in total operating revenues. During 2008 the Hospital initiated a hospitalist program that led to a significant increase in inpatient care. A hospitalist is a physician dedicated to providing inpatient care on a 24-hour basis. Additionally, the Hospital benefited from increases in sole community provider revenues and grant revenues.

Consistent with the healthcare industry nationally, as well as in New Mexico, wages, payroll taxes, and employee benefits have seen the highest increases of individual expense line items. The healthcare labor market is very competitive and healthcare providers must continually increase their salary and wage scales in order to attract, and then retain, caregivers. This represents an ongoing pressure on the operating results of providers.

Table 3. Budget to Actual

Actual results compare favorably to budgeted amounts for the hospital due to actual revenues being \$1,487,866 more than budgeted; in addition actual expenses were \$455,014 less than budgeted. This results in a gain of \$2,029,191 as compared to budgeted net income of \$86,311, as shown in table 3.

	Actual	Original and Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 14,376,228	\$ 12,869,846	\$ 1,506,382
Budgetary basis expenses	12,347,037	12,783,535	436,498
Excess of revenues over expenses	\$ 2,029,191	\$ 86,311	\$ 1,942,880

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2009 and 2008**

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the Hospital had \$2,193,345 invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the basic financial statements. In 2009, the Hospital purchased new equipment costing \$939,267.

Debt

At year end, the Hospital had \$451,148 in capital lease obligations outstanding as detailed in note 7 to the financial statements. Except for capital leases of \$196,726, initiated in 2008, the Hospital issued no new debt in 2009 or 2008. The Hospital cannot issue formal debt issuances of revenue notes without approval of the Joint Powers Commission. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the Hospital's debt ratings in the past two years.

Currently Known Facts, Decisions, and Conditions

The healthcare industry is subject to a tremendous amount of regulatory activity related to the provision of services as well as the billing for such services. Many different regulatory agencies establish standards that must be met by the Hospital in order for it to continue its operations. The costs involved with meeting constantly changing regulations can create a costly burden for the Hospital. The costs of not meeting such regulations, however, are potentially far greater. Significant penalties are assessed, for example, when fraud and/or abuse, either intentional or unintentional, is noted in billings submitted to Medicare or Medicaid. There has been no such activity detected at the Hospital.

There will continue to be significant pressure on net patient service revenues in the future. Changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Hospital. Negotiations with other third-party payors regarding payment for services provided to these payors' insured members are critical to maintaining the Hospital's financial position. These third-party payors are facing increasing pressures on their own operating results. In addition, the costs of providing care to uninsured patients are very significant due to the high percentage of such patients within New Mexico. Economic conditions in Truth or Consequences and the surrounding area can have a direct impact on the Hospital's operating results.

Healthcare expenditures are expected to continue representing a greater and greater percentage of the Gross National Product. The costs related to salaries, wages, payroll taxes, and employee benefits will continue to increase due to what is expected to be continued intense competition for caregivers and qualified administrative personnel. Pharmaceutical and medical supply costs are also expected to continue to increase.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's 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 finance department at 800 East 9th Street, Truth or Consequences, New Mexico 87901.

Sierra Vista Hospital
Balance Sheets
June 30, 2009 and 2008

ASSETS	2009	2008
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,052,863	\$ 532,921
Patient accounts receivable, net of estimated uncollectible accounts of \$1,779,438 and \$1,849,342, respectively	1,357,236	1,593,183
Sole community provider receivable	531,648	-
Taxes receivable	52,374	48,140
Grant receivable	-	261,700
Inventories	210,012	226,122
Prepaid expenses	133,311	52,049
Total current assets	3,337,444	2,714,115
<i>Capital assets, net</i>	2,193,345	1,691,772
Total assets	\$ 5,530,789	\$ 4,405,887
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Current maturities of capital lease obligations	\$ 139,276	\$ 221,275
Medicaid advance	150,000	500,000
Accounts payable	700,441	899,317
Accrued compensation and related liabilities	486,027	519,486
Estimated third-party payor settlements payable	740,251	470,576
Due to Joint Powers Commission entities	34,816	194,632
Deferred grant revenue	62,237	100,000
Accrued lawsuit settlement	-	78,348
Total current liabilities	2,313,048	2,983,634
<i>Capital lease obligations, net of current maturities</i>	311,872	545,575
Total liabilities	2,624,920	3,529,209
<i>Net assets (deficit)</i>		
Investment in capital assets, net of related debt	1,742,197	924,922
Unrestricted	1,163,672	(48,244)
Total net assets	2,905,869	876,678
Total liabilities and net assets	\$ 5,530,789	\$ 4,405,887

The accompanying notes are an integral part of the basic financial statements.

Sierra Vista Hospital
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$2,060,926 and \$2,837,827, respectively	\$ 9,951,869	\$ 7,647,696
Sole community provider	2,184,974	1,685,726
Grants	93,467	58,988
Other	49,110	42,669
Total operating revenues	12,279,420	9,435,079
<i>Operating expenses</i>		
Salaries and wages	6,204,500	5,842,810
Employee benefits	1,081,753	907,879
Professional fees	2,334,964	1,568,260
Supplies	1,070,597	804,533
Utilities	241,023	265,239
Repairs and maintenance	244,684	154,047
Leases and rentals	68,416	58,965
Depreciation and amortization	454,532	416,395
Insurance	359,078	346,131
Other	287,490	370,309
Total operating expenses	12,347,037	10,734,568
Operating loss	(67,617)	(1,299,489)
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	254,552	231,708
Mill levy revenue	456,744	433,419
Sierra County 412 Fund revenue	290,000	220,000
Grant revenue	200,000	161,700
Contributions	2,509	-
Interest income	1,943	549
Interest expense	(69,616)	(118,744)
Total nonoperating revenues (expenses), net	1,136,132	928,632
Excess of revenues (expenses) before capital contributions	1,068,515	(370,857)
Capital contributions	960,676	42,697
Change in net assets	2,029,191	(328,160)
Net assets, beginning of year	876,678	1,204,838
Net assets, end of year	\$ 2,905,869	\$ 876,678

The accompanying notes are an integral part of the basic financial statements.

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 11,760,817	\$ 11,021,522
Receipts from grants	155,704	58,988
Receipts from other revenue	49,110	42,669
Payments to employees	(7,319,712)	(6,725,125)
Payments to suppliers and contractors	(4,948,628)	(4,191,028)
Net cash provided by (used in) operating activities	(302,709)	207,026
<i>Cash flows from noncapital financing activities</i>		
Checks outstanding in excess of deposits	-	(113,257)
Payments to the Joint Powers Commission entities	(675,906)	(303,102)
Advances from the Joint Powers Commission entities	516,090	294,792
Noncapital contributions	2,509	-
Receipts from grants	361,700	-
Receipts from gross receipts tax	251,835	233,960
Receipts from mill levies	455,227	434,508
Receipts from Sierra County 412 Fund	290,000	220,000
Net cash provided by noncapital financing activities	1,201,455	766,901
<i>Cash flows from capital and related financing activities</i>		
Payment of capital lease obligations	(315,702)	(243,003)
Interest paid	(69,616)	(118,744)
Capital contributions	960,676	42,697
Purchase of capital assets	(956,105)	(122,505)
Net cash used in capital and related financing activities	(380,747)	(441,555)
<i>Cash flows from investing activities</i>		
Interest received	1,943	549
Net increase in cash and cash equivalents	519,942	532,921
Cash and cash equivalents, beginning of year	532,921	-
Cash and cash equivalents, end of year	\$ 1,052,863	\$ 532,921

The accompanying notes are an integral part of the basic financial statements.

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used In) Operating Activities</i>		
Operating loss	\$ (67,617)	\$ (1,299,489)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	454,532	416,395
Provision for bad debts	2,060,926	2,837,827
Changes in assets and liabilities:		
Patient accounts receivable	(1,824,979)	(2,818,277)
Sole community provider receivable	(531,648)	370,148
Estimated third-party payor settlements receivable	-	327,826
Inventories	16,110	(82,509)
Prepaid expenses	(81,262)	(37,579)
Medicaid advance	(350,000)	500,000
Accounts payable	(198,876)	(405,334)
Accrued compensation and related liabilities	(33,459)	25,564
Estimated third-party payor settlements payable	269,675	470,576
Accrued lawsuit settlement	(78,348)	(98,122)
Deferred revenue	62,237	-
Net cash provided by (used in) operating activities	\$ (302,709)	\$ 207,026

Noncash Capital and Related Financing Activities

The Hospital entered into capital lease obligations of \$196,726 during fiscal year 2008.

The accompanying notes are an integral part of the basic financial statements.

Sierra Vista Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies:

a. Reporting Entity

Sierra Vista Hospital (the Hospital) operates a 25-bed critical access hospital, rural health clinic, behavioral health services, and ambulance service in Truth or Consequences, New Mexico. The Hospital provides inpatient, outpatient, physician, and counseling services for County of Sierra, New Mexico, residents.

Pursuant to the authority provided by the Joint Powers Agreement Act (11-1-1 et. seq. NMSA 1978) and the Hospital Funding Act (Section 4-48B-9 NMSA), the County of Sierra, New Mexico (the County), the City of Truth or Consequences, New Mexico (the City), and the Village of Williamsburg, New Mexico (the Village) entered into a joint powers agreement (JPA) to operate Sierra Vista Hospital for the benefit of their citizens.

A Joint Powers Commission (JPC) was created which has general fiscal oversight authority and responsibility for the Hospital. The JPC consists of the three County Commissioners, three City Commissioners and three Village Trustees. Each participating governing body appoints their respective members to serve on the JPC.

The JPC established a governing board to exercise all powers and carry out all duties that the JPC may be authorized to exercise by law, including but not limited to the Hospital Funding Act, with respect to the operation and control of the Hospital, except for the power to issue bonds, call an election for the purpose of authorizing the issuance of bonds, imposition of a mill levy or other tax or to levy annual assessments for a mill levy or other tax. A total of seven Sierra County full-time residents are appointed by the JPC to the governing board for terms not to exceed three years. The County and City each appoint three members and the Village appoints one member.

All real property purchased or acquired under the terms of the JPA are owned by the participating parties as follows: County – 47.5%, City – 47.5%, and Village – 5.0%.

b. Component Unit

As required by accounting principles generally accepted in the United States of America, the financial statements present the Hospital — the primary government — and its component unit. The component unit discussed below is discretely presented in the Hospital reporting entity because of the significance of its operations or financial relationships with the Hospital.

Sierra Vista Hospital Development Organization – The Sierra Vista Hospital Development Organization, Inc. (the Organization) is a separate nonprofit corporation with a fiscal year end of December 31. The Organization was organized to solicit and accept charitable contributions in order to provide support to the Hospital. The Organization contributed \$925,823 and \$0 to the Hospital during the fiscal year 2009 and 2008, respectively. The Hospital provided support to the Organization of approximately \$125,000 and \$120,000 during the fiscal years 2009 and 2008, respectively. This support included the Organization’s director and assistant salaries as well as office space costs.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies (continued):

b. Component Unit (continued)

The Organization's condensed balance sheets at December 31, 2008 and 2007, are summarized as follows:

	2008	2007
<i>Current Assets</i>		
Cash	\$ 246,713	\$ 24,913
Promises to give	155,702	380,964
Total current assets	402,415	405,877
Promises to give, net of current portion	110,835	-
Total assets	\$ 513,250	\$ 405,877
<i>Liabilities</i>		
Note payable	\$ -	\$ 15,000
Deferred grant revenue	42,813	-
Total current liabilities	42,813	15,000
<i>Net assets</i>	470,437	390,877
Total liabilities and net assets	\$ 513,250	\$ 405,877

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies (continued):

b. Component Unit (continued)

The Organization's condensed statements of revenues, expenses, and changes in net assets for the years ended December 31, 2008 and 2007, are summarized as follows:

	2008	2007
<i>Revenues</i>		
Federal grants	\$ 668,234	\$ -
Contributions	175,991	435,211
Donated services and other expenses	158,985	-
Total revenues	1,003,210	435,211
<i>Expenses</i>		
Distributions to Sierra Vista Hospital	668,234	-
Management and general	112,888	44,334
Fundraising	142,528	-
Total expenses	923,650	44,334
Change in net assets	79,560	390,877
Net assets, beginning of year	390,877	-
Net assets, end of year	\$ 470,437	\$ 390,877

During 2008, it was discovered that the 2007 promises to give had not been recorded. To correct this error the beginning net assets of \$9,913, as originally reported, have been increased to \$390,877. In addition, 2007 promises to give have been increased by \$380,964.

The Organization's financial statements, including a separate OMB Circular A-133 report, can be obtained by contracting the Organization's Director at 800 East 9th Street, Truth or Consequences, New Mexico 87901.

Community Health Foundation – The Community Health Foundation (the Foundation) is a related party of the Hospital since the Hospital is its sole stated beneficiary. The Foundation is authorized by the Hospital to solicit contributions on its behalf. The Foundation's financial position is not material to the Hospital and has not been consolidated in these financial statements. The Foundation contributed \$47,607 and \$0 to the Hospital during fiscal years 2009 and 2008, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and 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. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and cash equivalents – Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less.

Patient accounts receivable – Receivables arising from patient service revenues are reduced by an allowance for uncollectible accounts and contractual adjustments based on experience, third-party contractual arrangements, and any unusual circumstances which may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against this allowance.

Inventories – Inventories consist of medical, pharmaceutical, and dietary supplies and are stated at the lower of cost (using the first-in, first-out method) or market value.

Compensated absences – The Hospital's employees earn paid days off at varying rates, depending on years of service. Paid days off earned, but not used, are paid upon termination.

Income taxes – The Hospital is exempt from federal and state income tax as it is jointly owned by the County, City, and Village.

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

Net assets – Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*. The Hospital did not have any restricted net assets at June 30, 2009 and 2008.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The Hospital’s statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services—the Hospital’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital assets acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Grants and contributions – From time to time, the Hospital receives grants from the County, City, Village, and State 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, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as nonoperating revenues and expenses.

Net patient service revenue – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Charity care – The Hospital provides care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Hospital’s charity care policy. This care is provided without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The charges related to this care approximated \$648,000 and \$156,000 in 2009 and 2008, respectively. In addition, the Hospital provides services to other medically indigent patients under various state and local governmental programs. Such programs pay amounts that are less than the cost of the services provided to the recipients.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

1. Description of Reporting Entity, Component Unit, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

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 governing board and then the JPC for approval. Upon approval, the budget is sent to the State of New Mexico Department of Finance and Administration (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when the fund balances for the prior year are known. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board and the JPC and sent to the DFA for approval. Budgeted amounts may be transferred between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the DFA.

Reclassifications – Certain reclassifications of the 2008 amounts have been made in the financial statements in order to conform to the 2009 presentation. These reclassifications had no effect on the previously reported change in net assets.

2. Compliance and Accountability:

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Hospital is found in violation of these laws, the Hospital could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

3. Deposits and Investments:

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 custodial risk policy.

The Hospital’s deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Hospital is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

Of the Hospital’s total deposits of \$1,558,611 and \$736,268 at June 30, 2009 and 2008, respectively, none was exposed to custodial credit risk because the collateral was held in the name of the financial institution and were fully insured by the FDIC.

Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper, and bankers’ acceptances.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

4. Net Patient Service Revenue:

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 is as follows:

- *Medicare* – The Hospital has been designated a critical access hospital and the clinic a rural health clinic by Medicare. Hospital inpatient and outpatient services and the rural health clinic are reimbursed by Medicare on a cost basis as defined and limited by the Medicare program. The Hospital and rural health clinic are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Final settlements are estimated and recorded in the financial statements in the year in which they occur.
- *Medicaid/SALUD!* – The Hospital participates in the New Mexico Medicaid managed care program. Inpatient acute care services are primarily paid at per diem rates varying according to the level of inpatient services provided. Outpatient services are paid as a percentage of charges. Rural health clinic services are paid on a prospective rate per visit.
- *Other programs* – The Hospital has patient service agreements with certain commercial insurance carriers, HMOs, 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 17% of the Hospital's net patient revenue for the year ended June 30, 2009. Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 21% of the Hospital's net patient revenue for the year ended June 30, 2008. 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 decreased approximately \$18,000 and \$120,000 in 2009 and 2008, respectively, due to differences between original estimates and final settlements or revised estimates.

Gross revenue, contractual adjustments, provision for bad debts, and charity care for the years ended June 30, 2009 and 2008, were as follows:

	2009	2008
<i>Gross revenue</i>		
Inpatient	\$ 6,063,720	\$ 4,231,163
Outpatient	17,390,337	14,377,724
	23,454,057	18,608,887
<i>Less</i>		
Third-party contractual adjustments based on charges	10,793,641	7,967,763
Provision for bad debts	2,060,926	2,837,827
Un-sponsored charges, including charity care and governmental indigent care programs	647,621	155,601
Net patient service revenue	\$ 9,951,869	\$ 7,647,696

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

5. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the Hospital at June 30, 2009 and 2008, consisted of these amounts:

	2009	2008
Receivable from patients and their insurance carriers	\$ 2,421,576	\$ 2,219,020
Receivable from Medicare	486,813	933,498
Receivable from Medicaid	228,285	290,007
Total patient accounts receivable	3,136,674	3,442,525
Less allowance for uncollectible accounts	1,779,438	1,849,342
Net patient accounts receivable	\$ 1,357,236	\$ 1,593,183

6. Capital Assets:

The Hospital capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least two years. Capital assets acquisitions are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

Buildings and leasehold improvements	20 to 40 years
Equipment, software, and furniture	3 to 10 years

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2009, were as follows:

	2009				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 6,500	\$ 16,838	\$ -	\$ (6,500)	\$ 16,838
Land	75,000	-	-	-	75,000
Total capital assets not being depreciated	81,500	16,838	-	(6,500)	91,838
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,140,566	58,023	-	106,500	1,305,089
Equipment	3,063,740	881,244	-	(100,000)	3,844,984
Total capital assets being depreciated	4,204,306	939,267	-	6,500	5,150,073
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(509,835)	(68,347)	-	(100,000)	(678,182)
Equipment	(2,084,199)	(386,185)	-	100,000	(2,370,384)
Total accumulated depreciation	(2,594,034)	(454,532)	-	-	(3,048,566)
Total capital assets being depreciated, net	1,610,272	484,735	-	6,500	2,101,507
Capital assets, net of accumulated depreciation	\$ 1,691,772	\$ 501,573	\$ -	\$ -	\$ 2,193,345

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2008, were as follows:

	2008				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 8,610	\$ 6,500	\$ -	\$ (8,610)	\$ 6,500
Land	75,000	-	-	-	75,000
Total capital assets not being depreciated	83,610	6,500	-	(8,610)	81,500
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,091,164	40,792	-	8,610	1,140,566
Equipment	2,791,801	271,939	-	-	3,063,740
Total capital assets being depreciated	3,882,965	312,731	-	8,610	4,204,306
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(439,783)	(70,052)	-	-	(509,835)
Equipment	(1,737,856)	(346,343)	-	-	(2,084,199)
Total accumulated depreciation	(2,177,639)	(416,395)	-	-	(2,594,034)
Total capital assets being depreciated, net	1,705,326	(103,664)	-	8,610	1,610,272
Capital assets, net of accumulated depreciation	\$ 1,788,936	\$ (97,164)	\$ -	\$ -	\$ 1,691,772

Construction in progress at June 30, 2009, relates to the implementation of an electronic medical records system. The expected cost to complete this project is approximately \$184,000 and the expected completion date is November 1, 2009.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

7. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for 2009 and 2008 follows:

	2009				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Capital lease obligations	\$ 766,850	\$ -	\$ (315,702)	\$ 451,148	\$ 139,276
Accrued lawsuit settlement	78,348	-	(78,348)	-	-
Compensated absences	221,494	492,857	(486,434)	227,917	227,917
Total noncurrent liabilities	\$ 1,066,692	\$ 492,857	\$ (880,484)	\$ 679,065	\$ 367,193

	2008				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Capital lease obligations	\$ 813,127	\$ 196,726	\$ (243,003)	\$ 766,850	\$ 221,275
Accrued lawsuit settlement	176,470	-	(98,122)	78,348	78,348
Compensated absences	194,536	450,134	(423,176)	221,494	221,494
Total noncurrent liabilities	\$ 1,184,133	\$ 646,860	\$ (764,301)	\$ 1,066,692	\$ 521,117

Capital lease obligations at varying rates of imputed interest from 4.24% to 8.39% collateralized by leased building and equipment. At June 30, 2009, the capitalized costs and net book value of the capital lease obligations were \$686,371 and \$363,160, respectively.

Scheduled future annual payments on capital lease obligations payable are as follows:

Years Ending June 30,	Principal	Interest	Total
2010	\$ 139,276	\$ 25,192	\$ 164,468
2011	150,126	15,841	165,967
2012	149,813	5,840	155,653
2013	11,933	64	11,997
	\$ 451,148	\$ 46,937	\$ 498,085

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

8. Mill Levy Tax and Gross Receipts Tax Revenue:

A New Mexico law adopted in 1980, and amended in 1981, allows counties to provide expanded tax support to qualified hospitals. The Hospital received mill levy proceeds from the County approximating \$457,000 and \$433,000 in 2009 and 2008, respectively. Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended.

The Hospital also received a share of gross receipts taxes collected by the City and the Village, approximating \$255,000 and \$232,000 in 2009 and 2008, respectively.

9. Risk Management, Medical Malpractice Claims, and Contingencies:

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; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

The Hospital is insured with a commercial insurance company for medical malpractice under a policy written on a self-insured retention of \$25,000 per occurrence. Coverage is limited to \$1,000,000 per occurrence and a \$3,000,000 annual aggregate. Should the claims-made policy not be renewed or be replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Management intends to continue claims-made coverage.

During fiscal year 2007, a settlement was entered into for a total of \$225,000 to be awarded to a former employee for wrongful termination. Equal monthly payments are being made by the Hospital and have proceeded on schedule. The Hospital accrued a liability for this amount and has an unpaid balance of \$0 and \$78,348 as of June 30, 2009 and 2008, respectively.

The Hospital is involved in litigation and regulatory investigations arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Hospital.

10. Retirement Plan:

Effective January 1, 2007, the Hospital amended the retirement plan previously established April 1, 2001, which had been discontinued January 16, 2006. The Plan is a defined contribution plan and is authorized under Internal Revenue Code 403(b). The Plan is administered by the Hospital. Substantially all employees are eligible. Employee contributions are limited to \$16,500 and \$5,500 of catch-up contributions per year for employees over 50. Employee contributions were approximately \$82,000 and \$109,000 during the years ended June 30, 2009 and 2008, respectively. The Hospital will match up to 3% of each employee's contribution. The Hospital contributions to this plan were \$34,730 and \$40,352, for the years ended June 30, 2009 and 2008, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

11. Concentration of Risk:

Receivables – The Hospital receives payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs, and patients. The majority of these patients are geographically concentrated in and around Sierra County. The mix of receivables from patients and third-party payors at June 30, 2009 and 2008, were as follows:

	2009	2008
Medicare	28 %	33 %
Medicaid	13	12
Private pay	38	31
Commercial and other	21	24
	100 %	100 %

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 change in their utilization patterns may have an adverse effect on the Hospital's operations.

12. Sierra County Bonds Payable:

On September 9, 1997, a purchase agreement was approved providing for the purchase of the Hospital facilities, associated equipment, and real estate by the County from the former operators of the Hospital for \$1,500,000. The purchase was funded through bond proceeds received from the New Mexico Financing Authority (NMFA). A promissory note was executed between the County and NMFA for the purchase price of the facilities plus an additional \$500,000 to fund future capital expenditures for the Hospital.

The promissory note is an obligation of the County and not the Hospital. The transfer of the cash and Hospital facilities was accounted for as an increase in the net assets of the Hospital. The carrying value of the facilities received in the transfer was allocated to land, buildings and improvements, and equipment based on their respective estimated fair values on the date of transfer based on an appraisal.

The note will be paid by the County from revenue earned through a 1/4% County gross receipts tax. Gross receipts tax revenue in excess of scheduled promissory note payments, if any, will be remitted to the County's 412 Fund to the Hospital to fund operations. Such remittances approximated \$290,000 and \$220,000, respectively, for the years ended June 30, 2009 and 2008.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2009 and 2008

13. Related-party Transactions:

The Hospital purchased dispatch services from the County of approximately \$21,000 in the fiscal years ended June 30, 2009 and 2008.

The Hospital purchased electricity from the City of approximately \$107,000 and \$125,000 during the fiscal years ended June 30, 2009 and 2008, respectively.

The Joint Power Commission members contributed \$100,000 during the fiscal year as matching funds for a State of New Mexico grant.

14. State of New Mexico Capital Appropriation:

The State of New Mexico (the State) has appropriated \$1,024,000 and \$2,102,785 during 2008 and 2007, respectively. The purpose of the appropriations is to acquire land for, design, construct, furnish, and equip a new hospital in Sierra County (the County). The State is holding the appropriation and the County, acting as the Hospital's fiscal agent, has access to the appropriations. The expiration dates for the 2008 and 2007 appropriations are June 30, 2012 and 2011, respectively. During fiscal year 2009 land has been purchased by the County for approximately \$675,000 for the new hospital. The title to the land is recorded with the County as the owner. As of June 30, 2009, the remaining balance of the 2007 appropriation is \$1,394,448.

15. Subsequent Events:

During September 2009, the Hospital entered into a \$600,000 line of credit with Citizens Bank of Las Cruces. No draws have been made and the note is due December 2, 2009.

SUPPLEMENTARY INFORMATION

Sierra Vista Hospital
Schedules of Pledged Collateral
Years Ended June 30, 2009 and 2008

	2009	2008
Bank of the Southwest – Joint Powers Group checking account	\$ 105,474	\$ 13,346
Bank of the Southwest – development office account	-	500,987
Bank of the Southwest – operating checking account	545,241	147,596
Bank of the Southwest – payroll checking account	28,019	74,339
Bank of the Southwest – savings account	879,877	-
Total amount of deposits per bank	1,558,611	736,268
Less FDIC insurance	928,734	100,000
Total uninsured public funds	\$ 629,877	\$ 636,268
50% collateral requirement	\$ 314,939	\$ 318,134
<i>Less market value of pledged securities held by</i>		
<i>Bank of the Southwest in Roswell, New Mexico</i>		
FNMA Arm Pool #89416, matures April 1, 2029	11,590	12,353
FHLB letter of credit, matured June 3, 2009	-	175,000
FHLB letter of credit, matured May 26, 2009	-	325,000
FHLB letter of credit, matured August 25, 2008	-	50,000
FHLB letter of credit, matures September 16, 2009	375,000	-
FHLB letter of credit, matures August 26, 2009	50,000	-
Total pledged securities	436,590	562,353
Excess of pledged securities over collateral requirement	\$ 121,651	\$ 244,219
Total amount of deposits per bank	\$ 1,558,611	\$ 736,268
Less reconciling items	505,748	203,347
Total cash and cash equivalents	\$ 1,052,863	\$ 532,921

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2009

	Actual	Original and Final Approved Budget	Over (Under) Budget
<i>Revenues</i>			
Net patient service revenue	\$ 9,951,869	\$ 9,215,212	\$ 736,657
Other	2,327,551	38,300	2,289,251
Nonoperating revenues (expenses), net	2,096,808	3,616,334	(1,519,526)
Total revenues	14,376,228	12,869,846	1,506,382
<i>Expenses</i>			
Salaries, wages, and benefits	7,286,253	7,543,902	(257,649)
Other	5,060,784	5,239,633	(178,849)
Total expenses	12,347,037	12,783,535	(436,498)
Change in net assets	\$ 2,029,191	\$ 86,311	\$ 1,942,880

See accompanying independent auditors' report.

SINGLE AUDIT

AUDITORS' SECTION

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*

Joint Powers Commission, Governing Board
and Management of Sierra Vista Hospital,
and Mr. Hector H. Balderas, New Mexico State Auditor
Truth or Consequences, New Mexico

We have audited the financial statements of the business-type activities and the discretely presented component unit of Sierra Vista Hospital (the Hospital), as of and for the year ended June 30, 2009, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated October 13, 2009. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2009, presented as supplementary information as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 01-06, 04-03, 2008-1, 2008-2, 2008-3, and 2008-4 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1, 2008-2, and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and response as items 01-06 and 2008-4.

We noted certain matters that we reported to management of the Hospital in a separate letter dated October 13, 2009.

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Joint Power Commission, Governing Board, management, New Mexico State Auditor, New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 13, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Joint Powers Commission, Governing Board
and Management of Sierra Vista Hospital,
and Mr. Hector H. Balderas, New Mexico State Auditor
Truth or Consequences, New Mexico

Compliance

We have audited the compliance of Sierra Vista Hospital (the Hospital), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Hospital's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not indentify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Joint Power Commission, Governing Board, management, New Mexico State Auditor, New Mexico Legislature, the New Mexico Department of Finance and Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 13, 2009

**Sierra Vista Hospital
 Schedule of Audit Findings and Questioned Costs
 Year Ended June 30, 2009**

**Section I – Summary of Auditors’ Results
 Financial Statements:**

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X no

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes X no

Identification of Major Program

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.887	Health Care and Other Facilities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Section II – Financial Statement Findings

01-06 Late Submission of Audit Report

<i>Condition</i>	The financial statement as of and for the year ended June 30, 2009, were delivered to the New Mexico State Auditor on November 3, 2009. The statements were due, however, on October 15, 2009.
<i>Criteria</i>	[X] Compliance Finding [X] Significant Deficiency [] Material Weakness New Mexico State Auditor Rule 2.2.2.9 (A) (the Rule) requires delivery of the financial statements of the hospitals to the New Mexico State Auditor on or before October 15 of the fiscal year under audit.
<i>Cause</i>	The Rule reporting requirements for component unit's caused confusion resulting in a late submission of the audit report.
<i>Effect</i>	The financial statements were not delivered in accordance with New Mexico State Auditor Rule 2.2.2. (A).
<i>Recommendation</i>	The Hospital should establish procedures to ensure that accurate and timely submission of its annual financial report to ensure it complies with the Rule reporting requirements.
<i>Management's Response</i>	We did out part timely. We selected a qualified audit firm well in advance of the due date and responded to all audit requests without delay. We have established procedures to ensure that accurate and timely submission of the annual financial report to ensure it complies with the Rule reporting requirements. Unfortunately the audit was not completed early enough to permit the audit firm and the State auditor's office to come to agreement about whatever was disagreed about. There is nothing we could have done better or earlier to avoid that.

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

04-03 Controls Over Information Systems Function and Data Security

<i>Condition</i>	<p>During our review of the Hospital’s internal control structure for information systems (IS), we noted the following:</p> <ul style="list-style-type: none"> ▪ There is only one employee in this department and proper segregation of duties is not achieved. ▪ Access to the key areas of the system is available to the accountant in the event of an emergency; however, the accountant has access to the general ledger and proper segregation of duties is not achieved.
<i>Criteria</i>	<p>[] Compliance Finding [X] Significant Deficiency [] Material Weakness</p> <p>In order to ensure security over system data, there should be proper segregation of duties between system maintenance, system operations, and the system security functions as well as segregation of those functions from the accounting and finance functions.</p>
<i>Cause</i>	<p>Due to the Hospital’s size, management does not believe an additional IS department employee is cost effective.</p>
<i>Effect</i>	<p>There is an increased risk that data can be lost or misappropriated. Also, there is an increased risk that HIPAA requirements could be violated.</p>
<i>Recommendation</i>	<p>The Hospital should consider splitting up the tasks of the system maintenance function and the system security function between the IS Administrator and the CFO or other designated employee without access to the general ledger.</p>
<i>Management’s Response</i>	<p>During fiscal year 2010, the Hospital hired a second full-time associate for the IS department. Both staff members are available during office hours and a monthly on-call schedule is published for emergency IS support during non-office hours. The addition of a second full-time associate has provided for improved segregation of duties. The accountant no longer has the back-up role for the IS department.</p>

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs, Component Unit Findings
Year Ended June 30, 2009**

**Sierra Vista Hospital Development Organization
2008-1 Preparation of Financial Statements**

<i>Condition</i>	The Organization relies upon their independent auditor to prepare external financial statements in accordance with GAAP, as well as the knowledge to detect accuracy and completeness of all required footnotes.
<i>Criteria</i>	[] Compliance Finding [X] Significant Deficiency [X] Material Weakness Internal control procedures over financial reporting include the ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Financial statements prepared in accordance with GAAP include a statement of cash flows and notes.
<i>Cause</i>	The Organization has not demonstrated the capability to prepare GAAP financial statements.
<i>Effect</i>	There is an increased risk that internal controls over financial reporting may not be sufficient to detect any potential misstatements in the financial statements or the related notes.
<i>Recommendation</i>	The Organization should implement internal controls over financial reporting by having the accountant or designee review the draft financial statements, the support for the statement of cash flows and notes, and prepare a disclosure checklist.
<i>Management's Response</i>	The Organization will prepare financial statements in accordance with generally accepted accounting principles (GAAP).

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs, Component Unit Findings (Continued)
Year Ended June 30, 2009**

**Sierra Vista Hospital Development Organization
2008-2 Account Reconciliations**

<i>Condition</i>	Several accounts were not reconciled prior to, or during, our on-site visit. As a result, a significant number of audit adjustments were made during the audit.
<i>Criteria</i>	[] Compliance Finding [X] Significant Deficiency [X] Material Weakness There should not be any significant unresolved reconciling items in balance sheet accounts at month-end.
<i>Cause</i>	The Organization has not demonstrated the capability to prepare GAAP financial statements.
<i>Effect</i>	There is an increased risk that internal controls over financial reporting may not be sufficient to detect any potential misstatements in the financial statements or the related notes.
<i>Recommendation</i>	The Organization should implement internal controls over financial reporting by having the accountant or designee review the draft financial statements, the support for the statement of cash flows and notes, and prepare a disclosure checklist.
<i>Management's Response</i>	Balance sheet accounts and revenue accounts will be reconciled to support documentation at the end of each month.

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs, Component Unit Findings (Continued)
Year Ended June 30, 2009**

**Sierra Vista Hospital Development Organization
2008-3 Segregation of Duties**

<i>Condition</i>	There is only one employee (the director) in the Organization, and this employee is solely responsible for day-to-day operation. In addition a single volunteer accountant (the accountant) performs accounting and financial functions; however, there is not adequate segregation of duties between significant processes. Although the director reviews the accountant’s reports, the director lacks the financial experience necessary to properly mitigate associated risks. The accountant also has the ability to generate and post adjustments to the general ledger.
<i>Criteria</i>	[] Compliance Finding [X] Significant Deficiency [X] Material Weakness Organizations are required to maintain internal controls over financial accounting and reporting systems to help ensure funds are properly safeguarded. Segregation of duties reduces the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.
<i>Cause</i>	There is an improper segregation of duties between the accounting and financial reporting functions.
<i>Effect</i>	There is an increased risk of fraud or error in the financial reporting process to the Organization.
<i>Recommendation</i>	Policies and procedures should be created that define personnel responsible for generating, posting, and approving journal entries in the Organization’s general ledger as well as other accounting functions that properly segregate the duties of custody, authorization, and recording.
<i>Management’s Response</i>	This is an office with one professional, one quarter-time support staff, and a Board of Directors. Segregation of duties is something that will be difficult to address because there does not appear to be any opportunities available for increased staff. We will address this with independent reconciliations. The Executive Director cannot sign a check that is over \$2,000 without the additional signature of a designated Board member. We will utilize individual Board members in the capacity possible to address this finding.

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs, Component Unit Findings (Continued)
Year Ended June 30, 2009**

**Sierra Vista Hospital Development Organization
2008-4 Late Submission of Audit Report**

<i>Condition</i>	The financial statement as of and for the year ended June 30, 2009, were delivered to the New Mexico State Auditor on November 3, 2009. The statements were due, however, on October 15, 2009.
<i>Criteria</i>	[X] Compliance Finding [X] Significant Deficiency [] Material Weakness New Mexico State Auditor Rule 2.2.2.9 (A) (the Rule) requires delivery of the financial statements of component units to the New Mexico State Auditor on or before October 15 of the fiscal year under audit.
<i>Cause</i>	The Rule reporting requirements for component unit's caused confusion resulting in a late submission of the audit report.
<i>Effect</i>	The financial statements were not delivered in accordance with New Mexico State Auditor Rule 2.2.2. (A).
<i>Recommendation</i>	The Organization should establish procedures to ensure that accurate and timely submission of its annual financial report to ensure it complies with the Rule reporting requirements.
<i>Management's Response</i>	We will establish procedures to ensure that future audits are completed in a timely fashion.

**Sierra Vista Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended June 30, 2009**

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

AUDITEE'S SECTION

**Sierra Vista Hospital
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
United States Department of Health and Human Services		
Rural Health Care Services Outreach and Rural Health Network Development Program	93.912	\$ 23,193
Subtotal direct programs		23,193
Pass-through Program from:		
Sierra Vista Hospital Development Organization Health Care and Other Facilities*	93.877	711,047
New Mexico Hospital Education and Research Foundation National Bioterrorism Hospital Preparedness Program	93.889	18,000
State of New Mexico Department of Health Small Rural Hospital Improvement Grant Program	93.301	8,282
Subtotal pass-through programs		737,329
Total expenditures of federal awards		\$ 760,522

* – No identifying number was assigned by the pass-through entity.

See accompanying independent auditors' report.

**Sierra Vista Hospital
Summary Status of Prior Year Findings
Year Ended June 30, 2009**

- 01-06 Late Submission of Audit Report – Repeated**
- 04-03 Controls Over Information Systems Function and Data Security – Repeated**
- 06-04 IRS Penalties – Resolved**
- 07-01 Auditor Preparation of the Hospital’s Audited Financial Statements – Resolved**
- 07-02 Controls Over Access to the Hospital’s G/L – Resolved**
- 08-01 Accounts Receivable Credit Balances – Resolved**
- 08-02 Revenue Cycle – Resolved**

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2009**

An exit conference was held October 13, 2009, with the Finance Committee to discuss the basic financial statements and the finding contained in this report. The personnel attending this meeting were:

Nadine Daves	Governing Board
Eunice Kent	Governing Board
Barry Ragsdale	Governing Board
Domenica Rush	Administrator
Bret Goebel	Interim Chief Financial Officer
Belinda Cloud	Controller

Tom Dingus	Dingus, Zarecor & Associates PLLC
Tristi Cohelan	Dingus, Zarecor & Associates PLLC

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