

Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2010 and 2009

Sierra Vista Hospital
Table of Contents

	Page
<i>INTRODUCTORY SECTION:</i>	
Governing Board and Principal Employees	1
<i>FINANCIAL SECTION:</i>	
Independent auditors' report	2-3
Management's discussion and analysis	4-8
Basic financial statements:	
Balance sheets	9
Statements of revenues, expenses, and changes in net assets	10
Statements of cash flows	11-12
Notes to basic financial statements	13-26
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedules of pledged collateral	27
Schedule of revenues and expenses – budget to actual	28
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 <i>Government Auditing Standards</i>	29-30
Schedule of findings and responses	31-32
Summary status of prior year findings	32- 33
Exit conference	34

INTRODUCTORY SECTION

**Sierra Vista Hospital
Governing Board and Principal Employees
June 30, 2010**

County of Sierra, New Mexico, Representatives

Barry Ragsdale, Chairperson
Nadyne Gardner Daves
Terry Egan

City of Truth or Consequences, New Mexico, Representatives

Bobby Allen
Zenith Baker

Village of Williamsburg, New Mexico, Representatives

Greg D'Amour, Secretary

City of Elephant Butte, New Mexico, Representatives

Terry Squier, Vice Chairperson
Adrienne Podlesny

Ex-officio Members

Domenica Rush, Sierra Vista Hospital Administrator
Janet Porter Carrejo, County of Sierra, New Mexico, County Manager
David Weiser, City of Truth or Consequences, New Mexico, City Manager
Renee Stamper, Village of Williamsburg, New Mexico, Village Clerk
Alan Briley, City of Elephant Butte, New Mexico, City Manager

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, 2010 and 2009, 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, 2010, presented as supplemental 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of June 30, 2010 and 2009, and the respective changes in financial position, and cash flows, where applicable, 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, 2010, 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 8, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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.

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 schedules of pledged collateral are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 taken as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 8, 2010

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009**

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, 2010 and 2009. 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 \$2,509,997 or 86.4% increase in 2010 and \$2,029,191 or 231.5% increase in 2009.
- The Hospital reported operating income in 2010 (\$1,122,867) is an improvement of \$1,190,484 over the loss reported in 2009. Losses in 2009 decreased by \$1,231,872 over the loss reported in 2008.
- Nonoperating net revenues decrease by \$91,577 or 8.1% in 2010 compared to 2009. Nonoperating net revenues increased by \$207,500 or 22.3% in 2009 compared to 2008.

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, 2010 and 2009**

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 \$2,509,997 or 86.4% in 2010 and \$2,029,191 or 231.5% in 2009, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Assets

	2010	2009	2008
<i>Assets</i>			
Current assets	\$ 4,271,602	\$ 3,337,444	\$ 2,714,115
Capital assets, net	2,293,803	2,193,345	1,691,772
Total assets	\$ 6,565,405	\$ 5,530,789	\$ 4,405,887
<i>Liabilities and net assets</i>			
Current liabilities	\$ 987,878	\$ 2,313,048	\$ 2,983,634
Capital lease obligations	161,661	311,872	545,575
Total liabilities	1,149,539	2,624,920	3,529,209
<i>Net assets</i>			
Invested in capital assets, net of related debt	1,982,508	1,742,197	924,922
Unrestricted	3,433,358	1,163,672	(48,244)
Total net assets	5,415,866	2,905,869	876,678
Total liabilities and net assets	\$ 6,565,405	\$ 5,530,789	\$ 4,405,887

A significant component of the change in the Hospital's assets is the increase in current assets. In 2010 current assets increased by \$934,158. The most significant change in current assets is the increase in cash of \$408,364. Total assets have increased significantly in 2010 over the prior year primarily due to net income. Assets for 2010 are \$1,034,616 above 2009. Total assets for 2010 consist primarily of accounts receivable and cash. Total liabilities have decreased by \$1,475,851 over the last year due mainly to a reduction in payables and leases.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2010 and 2009**

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by \$2,509,997 or 86.4% as shown in Table 2. This increase is the result of total operating revenues increasing \$1,270,463, while total operating expenses increased by \$79,979.

Table 2. Operating Results and Changes in Net Assets

	2010	2009	2008
<i>Operating revenues</i>			
Net patient service revenue	\$ 10,324,167	\$ 9,951,869	\$ 7,647,696
Sole community provider	3,065,755	2,184,974	1,685,726
Grants and other operating revenue	159,961	142,577	101,657
Total operating revenues	13,549,883	12,279,420	9,435,079
<i>Operating expenses</i>			
Salaries, wages, and benefits	7,543,976	7,286,253	6,750,689
Supplies, insurance, and other	4,335,447	4,606,252	3,567,484
Depreciation and amortization	547,593	454,532	416,395
Total operating expenses	12,427,016	12,347,037	10,734,568
<i>Operating income (loss)</i>	1,122,867	(67,617)	(1,299,489)
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	772,950	711,296	665,127
Sierra County 412 Fund revenue	303,397	290,000	220,000
Grant revenue	-	200,000	161,700
Contributions	-	2,509	-
Interest expense	(35,885)	(69,616)	(118,744)
Other, net	4,093	1,943	549
Total nonoperating revenues (expenses), net	1,044,555	1,136,132	928,632
Excess of revenues over (under) expenses before capital contributions	2,167,422	1,068,515	(370,857)
<i>Capital contributions</i>	342,575	960,676	42,697
Change in net assets	2,509,997	2,029,191	(328,160)
Net assets, beginning of year	2,905,869	876,678	1,204,838
Net assets, end of year	\$ 5,415,866	\$ 2,905,869	\$ 876,678

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2010 and 2009**

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

During the year operating revenues increased \$1,270,463 over the preceding year, based on increased outpatient volumes. Operating expenses increased considerably less in the amount of \$79,979. Because revenues have increased more than expenses, we have an operating income in 2010 of \$1,122,867 as opposed to an operating loss in 2009. Compared to 2008 operating income has increased to \$2,422,356.

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. Salary, wages and employee benefits increased in 2010 by \$257,723 or 3.5%. This increase is based on adding seven staff members and a modest salary increase. 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.

Reduction in other expense items contributed to holding total expense increase to only \$79,979.

Table 3. Budget to Actual

Actual results compare favorably to budgeted amounts for the hospital due to actual revenues being \$522,616 more than budgeted; in addition actual expenses were \$796,780 less than budgeted. This results in a gain of \$2,509,997 as compared to budgeted net income of \$1,190,601, as shown in Table 3.

	Actual	Original and Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 14,937,013	\$ 14,414,397	\$ 522,616
Budgetary basis expenses	12,427,016	13,223,796	796,780
Excess of revenues over expenses	\$ 2,509,997	\$ 1,190,601	\$ 1,319,396

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2010 and 2009**

Capital Asset and Debt Administration

Capital Assets

At the end of 2010, the Hospital had \$2,293,803 invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the basic financial statements. In 2010, the Hospital purchased new equipment costing \$648,051.

Debt

At year end, the Hospital had \$311,295 in capital lease obligations outstanding as detailed in note 7 to the basic financial statements. The Hospital issued no new debt in 2010 or 2009. 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.

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 the Hospital must meet in order to continue operating. 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 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 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 increasing.

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, 2010 and 2009

ASSETS	2010	2009
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,461,227	\$ 1,052,863
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$1,797,000 and \$1,779,000, respectively	1,276,135	1,357,236
Sole community provider receivable	715,105	531,648
Taxes receivable	51,104	52,374
Estimated third-party payor settlements receivable	390,000	-
Inventories	198,152	210,012
Prepaid expenses	179,879	133,311
Total current assets	4,271,602	3,337,444
<i>Capital assets, net</i>	2,293,803	2,193,345
Total assets	\$ 6,565,405	\$ 5,530,789
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Current maturities of capital lease obligations	\$ 149,634	\$ 139,276
Medicaid advance	-	150,000
Accounts payable	268,447	700,441
Accrued compensation and related liabilities	512,876	486,027
Estimated third-party payor settlements payable	56,921	740,251
Due to Joint Powers Commission entities	-	34,816
Deferred grant revenue	-	62,237
Total current liabilities	987,878	2,313,048
<i>Capital lease obligations, net of current maturities</i>	161,661	311,872
Total liabilities	1,149,539	2,624,920
<i>Net assets</i>		
Investment in capital assets, net of related debt	1,982,508	1,742,197
Unrestricted	3,433,358	1,163,672
Total net assets	5,415,866	2,905,869
Total liabilities and net assets	\$ 6,565,405	\$ 5,530,789

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, 2010 and 2009

	2010	2009
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$2,612,198 and \$2,061,175, respectively	\$ 10,324,167	\$ 9,951,869
Sole community provider	3,065,755	2,184,974
Grants	114,695	93,467
Other	45,266	49,110
Total operating revenues	13,549,883	12,279,420
<i>Operating expenses</i>		
Salaries and wages	6,447,603	6,204,500
Employee benefits	1,096,373	1,081,753
Professional fees	2,037,895	2,334,964
Supplies	1,055,982	1,070,597
Utilities	245,073	241,023
Repairs and maintenance	390,870	244,684
Leases and rentals	36,537	68,416
Depreciation and amortization	547,593	454,532
Insurance	341,735	359,078
Other	227,355	287,490
Total operating expenses	12,427,016	12,347,037
Operating income (loss)	1,122,867	(67,617)
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	270,098	254,552
Mill levy revenue	502,852	456,744
Sierra County 412 Fund revenue	303,397	290,000
Grant revenue	-	200,000
Contributions	-	2,509
Interest income	4,093	1,943
Interest expense	(35,885)	(69,616)
Total nonoperating revenues (expenses), net	1,044,555	1,136,132
Excess of revenues over expenses before capital grants and contributions	2,167,422	1,068,515
Capital grants and contributions	342,575	960,676
Change in net assets	2,509,997	2,029,191
Net assets, beginning of year	2,905,869	876,678
Net assets, end of year	\$ 5,415,866	\$ 2,905,869

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

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 12,064,236	\$ 11,760,817
Receipts from grants	52,458	155,704
Receipts from other revenue	45,266	49,110
Payments to employees	(7,517,127)	(7,319,712)
Payments to suppliers and contractors	(4,802,149)	(4,948,628)
Net cash used in operating activities	(157,316)	(302,709)
<i>Cash flows from noncapital financing activities</i>		
Payments to the Joint Powers Commission entities	(34,816)	(675,906)
Advances from the Joint Powers Commission entities	-	516,090
Noncapital contributions	-	2,509
Receipts from grants	-	361,700
Receipts from gross receipts tax	270,301	251,835
Receipts from mill levies	503,919	455,227
Receipts from Sierra County 412 Fund	303,397	290,000
Net cash provided by noncapital financing activities	1,042,801	1,201,455
<i>Cash flows from capital and related financing activities</i>		
Payment of capital lease obligations	(139,853)	(315,702)
Interest paid	(35,885)	(69,616)
Capital contributions	342,575	960,676
Purchase of capital assets	(648,051)	(956,105)
Net cash used in capital and related financing activities	(481,214)	(380,747)
<i>Cash flows from investing activities</i>		
Interest received	4,093	1,943
Net increase in cash and cash equivalents	408,364	519,942
Cash and cash equivalents, beginning of year	1,052,863	532,921
Cash and cash equivalents, end of year	\$ 1,461,227	\$ 1,052,863

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

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
<i>Reconciliation of Operating Income (Loss) to Net Cash Used In Operating Activities</i>		
Operating income (loss)	\$ 1,122,867	\$ (67,617)
<i>Adjustments to reconcile operating income (loss) to net cash used in operating activities</i>		
Depreciation and amortization	547,593	454,532
Provision for bad debts	2,612,198	2,061,175
Changes in assets and liabilities:		
Patient accounts receivable	(2,531,097)	(1,825,228)
Sole community provider receivable	(183,457)	(531,648)
Estimated third-party payor settlements receivable	(390,000)	-
Inventories	11,860	16,110
Prepaid expenses	(46,568)	(81,262)
Medicaid advance	(150,000)	(350,000)
Accounts payable	(431,994)	(198,876)
Accrued compensation and related liabilities	26,849	(33,459)
Estimated third-party payor settlements payable	(683,330)	269,675
Accrued lawsuit settlement	-	(78,348)
Deferred grant revenue	(62,237)	62,237
Net cash used in operating activities	\$ (157,316)	\$ (302,709)

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

Sierra Vista Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

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 Sierra County, 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), the City of Elephant Butte (Elephant Butte), 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, three Elephant Butte City Councilors, 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 nine Sierra County full-time residents are appointed as hospital board members for terms not to exceed three years. The County and City each appoint three members; Elephant Butte appoints two members, and the Village appoints one member.

All real property purchased or acquired under the terms of the JPA is owned by the participating parties as follows: County – 40%, City – 40%, Elephant Butte – 15%, and the Village – 5%.

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 and 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 approximately \$241,000 and \$926,000 to the Hospital during fiscal years 2010 and 2009, respectively. The Hospital provided support to the Organization of approximately \$87,000 and \$125,000 during fiscal years 2010 and 2009, 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, 2010 and 2009

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, 2009 and 2008, are summarized as follows:

	2009	2008
<i>Current Assets</i>		
Cash	\$ 78,273	\$ 246,713
Promises to give	59,315	155,702
Total current assets	137,588	402,415
Promises to give, net of current portion	19,698	110,835
Total assets	\$ 157,286	\$ 513,250
<i>Liabilities</i>		
Deferred grant revenue	\$ -	\$ 42,813
<i>Net assets</i>	157,286	470,437
Total liabilities and net assets	\$ 157,286	\$ 513,250

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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, 2009 and 2008, are summarized as follows:

	2009	2008
<i>Revenues</i>		
Federal grants	\$ 92,715	\$ 668,234
Contributions	185,779	175,991
Donated services and other expenses	176,360	158,985
Total revenues	454,854	1,003,210
<i>Expenses</i>		
Distributions to Sierra Vista Hospital	307,002	668,234
Management and general	310,020	112,888
Fundraising	150,983	142,528
Total expenses	768,005	923,650
Change in net assets	(313,151)	79,560
Net assets, beginning of year	470,437	390,877
Net assets, end of year	\$ 157,286	\$ 470,437

A separate audit report was not issued for the Organization. The Organization's financial statements can be obtained by contracting the Organization 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 \$16,236 and \$47,607 to the Hospital during fiscal years 2010 and 2009, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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, Elephant Butte, and the 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, 2010 and 2009.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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, Elephant Butte, the 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 \$463,000 and \$648,000 in 2010 and 2009, 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, 2010 and 2009

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.

Subsequent events – Subsequent events have been reviewed through October 8, 2010, the date on which the financial statements were available to be issued.

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 \$1,713,097 and \$1,558,611 at June 30, 2010 and 2009, respectively, none was exposed to custodial credit risk because the collateral was held in the name of the financial institution and was 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, 2010 and 2009

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 as 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 20% and 22% of the Hospital's net patient revenue for the year ended June 30, 2010. Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 17% of the Hospital's net patient revenue for the year ended June 30, 2009. 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 \$191,000 in 2010 and decreased approximately \$18,000 in 2009, 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, 2010 and 2009, were as follows:

	2010	2009
Gross patient service revenue	\$ 21,468,048	\$ 23,454,057
Less charity care	463,117	647,621
	21,004,931	22,806,436
<i>Contractual Adjustments</i>		
Medicare	4,589,939	6,691,678
Medicaid	973,321	978,988
Other	2,505,306	3,122,726
Provision for bad debts	2,612,198	2,061,175
Net patient service revenue	\$ 10,324,167	\$ 9,951,869

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

5. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the Hospital at June 30, 2010 and 2009, consisted of these amounts:

	2010	2009
Receivable from patients and their insurance carriers	\$ 2,428,794	\$ 2,421,576
Receivable from Medicare	497,336	486,813
Receivable from Medicaid	147,005	228,285
Total patient accounts receivable	3,073,135	3,136,674
Less allowance for uncollectible accounts	1,797,000	1,779,438
Net patient accounts receivable	\$ 1,276,135	\$ 1,357,236

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, 2010 and 2009

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2010, were as follows:

	2010				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 16,838	\$ -	\$ -	\$ (16,838)	\$ -
Land	75,000	-	-	-	75,000
Total capital assets not being depreciated	91,838	-	-	(16,838)	75,000
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,305,089	-	(98,727)	-	1,206,362
Equipment	3,844,984	648,051	(975,200)	16,838	3,534,673
Total capital assets being depreciated	5,150,073	648,051	(1,073,927)	16,838	4,741,035
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(678,182)	(67,070)	98,727	-	(646,525)
Equipment	(2,370,384)	(480,523)	975,200	-	(1,875,707)
Total accumulated depreciation	(3,048,566)	(547,593)	1,073,927	-	(2,522,232)
Total capital assets being depreciated, net	2,101,507	100,458	-	16,838	2,218,803
Capital assets, net of accumulated depreciation	\$ 2,193,345	\$ 100,458	\$ -	\$ -	\$ 2,293,803

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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, 2010 and 2009

7. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for 2010 and 2009 follows:

	2010					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
Capital lease obligations	\$ 451,148	\$ -	\$ (139,853)	\$ 311,295	\$ 149,634	
Compensated absences	227,917	523,233	(509,322)	241,828	241,828	
Total noncurrent liabilities	\$ 679,065	\$ 523,233	\$ (649,175)	\$ 553,123	\$ 391,462	

	2009					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
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	

Capital lease obligations at varying rates of imputed interest from 4.24% to 8.39% collateralized by leased building and equipment. At June 30, 2010, the capitalized costs and net book value of the capital lease obligations were \$686,371 and \$225,886, respectively.

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

Years Ending June 30,	Principal	Interest	Total
2011	\$ 149,634	\$ 16,333	\$ 165,967
2012	149,614	6,039	155,653
2013	12,047	66	12,113
	\$ 311,295	\$ 22,438	\$ 333,733

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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 \$503,000 and \$457,000 in 2010 and 2009, 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, Elephant Butte, and the Village, approximating \$270,000 and \$255,000 in 2010 and 2009, 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.

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 Hospital's financial position or results of operations.

10. Retirement Plan:

Effective January 1, 2007, the Hospital amended the DATAIR Section 403(b) Non-ERISA Basic plan (the 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 years of age. Employee contributions were approximately \$49,000 and \$82,000 during the years ended June 30, 2010 and 2009, respectively. The Hospital will match up to 3% of each employee's contribution. The Hospital's contributions to the Plan were approximately \$27,000 and \$35,000, for the years ended June 30, 2010 and 2009, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

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, 2010 and 2009, was as follows:

	2010	2009
Medicare	25 %	28 %
Medicaid	7	13
Private pay	22	38
Commercial and other	46	21
	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 .25% 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 for the Hospital to fund operations. Such remittances approximated \$303,000 and \$290,000, respectively, for the years ended June 30, 2010 and 2009.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2010 and 2009

13. Related-party Transactions:

The Hospital purchased dispatch services from the County of approximately \$25,000 and \$21,000 in the fiscal years ended June 30, 2010 and 2009, respectively.

The Hospital purchased electricity from the City of approximately \$125,000 and \$107,000 during the fiscal years ended June 30, 2010 and 2009, respectively.

The JPC members contributed \$100,000 during the fiscal year ended June 30, 2009, as matching funds for a State of New Mexico grant.

14. State of New Mexico Capital Appropriation:

The State of New Mexico (the State) 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 the County. The State is holding the appropriations 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 was 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, 2010, the remaining balance of the 2007 appropriation is \$1,352,785.

15. Subsequent Events

In July 2010, the Hospital was awarded \$123,750 from the Department of Health and Human Services for the purchase of equipment.

SUPPLEMENTAL INFORMATION

Sierra Vista Hospital
Schedules of Pledged Collateral
Years Ended June 30, 2010 and 2009

	2010	2009
Bank of the Southwest – Joint Powers Group checking account	\$ 48,376	\$ 105,474
Bank of the Southwest – employee advancement fund account	5,214	-
Bank of the Southwest – operating checking account	255,295	545,241
Bank of the Southwest – payroll checking account	13,798	28,019
Bank of the Southwest – savings account	1,390,414	879,877
Total amount of deposits per bank	1,713,097	1,558,611
Less FDIC insurance	500,000	928,734
Total uninsured public funds	\$ 1,213,097	\$ 629,877
50% collateral requirement	\$ 606,549	\$ 314,939
<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	10,869	11,590
FHLB letter of credit, matures September 7, 2010	450,000	-
FHLB letter of credit, matures January 5, 2011	150,000	-
FHLB letter of credit, matures June 6, 2011	300,000	-
FHLB letter of credit, matured September 16, 2009	-	375,000
FHLB letter of credit, matured August 26, 2009	-	50,000
Total pledged securities	910,869	436,590
Excess of pledged securities over collateral requirement	\$ 304,320	\$ 121,651
Total amount of deposits per bank	\$ 1,713,097	\$ 1,558,611
Less reconciling items	251,870	505,748
Total cash and cash equivalents	\$ 1,461,227	\$ 1,052,863

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2010

	Actual	Final Approved Budget	Over (Under) Budget
<i>Revenues</i>			
Net patient service revenue	\$ 10,324,167	\$ 9,998,801	\$ 325,366
Other	45,266	160,897	(115,631)
Nonoperating revenues (expenses), net	4,567,580	4,254,699	312,881
Total revenues	14,937,013	14,414,397	522,616
<i>Expenses</i>			
Salaries, wages, and benefits	7,543,976	8,008,017	(464,041)
Other	4,883,040	5,215,779	(332,739)
Total expenses	12,427,016	13,223,796	(796,780)
Change in net assets	\$ 2,509,997	\$ 1,190,601	\$ 1,319,396

See accompanying independent auditors' report.

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, 2010, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated October 8, 2010. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2010, presented as supplemental 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as items 01-06 and 10-01. 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.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 01-06 and 10-01.

We noted certain matters that we reported to management of the Hospital in a separate letter dated October 8, 2010.

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 8, 2010

**Sierra Vista Hospital
Schedule of Findings and Responses
Year Ended June 30, 2010**

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 19, 2010. The statements were due, however, on October 15, 2010.
<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>Context</i>	This finding appears to be an isolated incident.
<i>Cause</i>	The financial statements were sent on October 11, 2010 to an incorrect address due to a clerical error on the part of the auditor resulting in a late submission.
<i>Effect</i>	The financial statements were not delivered in accordance with New Mexico State Auditor Rule 2.2.2.9 A.
<i>Recommendation</i>	The auditors should double check the address before shipping.
<i>Management's Response</i>	Management agrees that the financial statements were delivered late to the New Mexico State Auditor due to auditor error.

**Sierra Vista Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2010**

10-01 Cash Disbursements Testing

Condition	<p>During our cash disbursements testing, we noted the following 22 instances out of 100 selected transactions:</p> <ul style="list-style-type: none">▪ 20 transactions that included mileage reimbursement had mileage reimbursed at the incorrect rate. In the aggregate, the Hospital underpaid employees by \$14.21. The total amount paid for these 20 employee travel reimbursements which included mileage reimbursement and other travel expenses was \$7,719.▪ 1 transaction, totaling \$750, was reimbursed twice.▪ 1 transaction, totaling \$150, was missing purchase support.
Criteria	<p>[X] Compliance Finding [X] Significant Deficiency [] Material Weakness</p> <p>New Mexico State Auditor Rule 2.2.2.10.G states that employees shall be reimbursed the Internal Revenue Service standard mileage rate set January 1 of the previous year. In addition, all cash payments should be supported by invoice and/or receipts and reimbursements should not be reimbursed twice.</p>
Context	<p>This finding appears to be a systemic problem.</p>
Cause	<p>The Hospital reimbursed employees at the incorrect mileage reimbursement rate. Proper supporting documents were not available during testing of cash disbursements and the disbursement paid twice was not verified to the original reimbursement report.</p>
Effect	<p>Mileage reimbursements were not reimbursed in accordance with New Mexico State Audit Rule. In regards to the other cash disbursements noted above, there is an increased risk that an employee is misappropriating funds.</p>
Recommendation	<p>The Hospital should reimburse employees at the correct rate set by the State of New Mexico; all cash disbursements should require proper support and policies and procedures should be established ensuring reimbursements are not duplicated.</p>
Management's Response	<p>Sierra Vista Hospital has recouped the expense that was reimbursed twice. We have implemented verification and review processes to ensure expense reimbursement and support documentation are correctly recorded and filed.</p>

**Sierra Vista Hospital
Summary Status of Prior Year Findings
Year Ended June 30, 2010**

Sierra Vista Hospital:

01-06 Late Submission of Audit Report – Repeated

04-03 Controls Over Information Systems Function and Data Security – Resolved

Sierra Vista Hospital Development Organization:

2008-1 Preparation of Financial Statements – Resolved

2008-2 Account Reconciliations – Resolved

2008-3 Segregation of Duties – Resolved

2008-4 Late Submission of Audit Report – Resolved

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2010**

An exit conference was held October 8, 2010, with the Finance Committee to discuss the basic financial statements and the finding contained in this report. The personnel attending this meeting were:

Terry Egan	Governing Board
Terry Squier	Governing Board
Adrienne Podlesny	Governing Board
Domenica Rush	Administrator
Bret Goebel	Contracted 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.