

Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2011 and 2010

Sierra Vista Hospital
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INTRODUCTORY SECTION

**Sierra Vista Hospital
Governing Board and Principal Employees
June 30, 2011**

County of Sierra, New Mexico, Representatives

Barry Ragsdale, Chairperson
Nadyne Gardner Daves
Terry Egan

City of Truth or Consequences, New Mexico, Representatives

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
Ellen Lindsey, 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 of Sierra Vista Hospital (the Hospital) as of and for the years ended June 30, 2011 and 2010, 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, 2011, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of June 30, 2011 and 2010, and the 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, 2011, 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 September 19, 2011, 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 financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 19, 2011

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2011 and 2010**

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, 2011 and 2010. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a \$2,146,129 or 39.6% increase in 2011 and \$2,509,997 or 86.4% increase in 2010.
- The Hospital reported operating income in 2011 (\$858,803) a decrease from the income reported in 2010. The operating income in 2010 increased by \$1,177,520 over the loss reported in 2009.
- Nonoperating net revenues increased by \$70,966 or 6.7% in 2011 compared to 2010. Nonoperating net revenues decreased by \$78,613 or 6.9% in 2010 compared to 2009.

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, 2011 and 2010**

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 \$2,146,129 or 39.6% in 2011 and \$2,509,997 or 86.4%, in 2010, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Assets

	2011	2010	2009
<i>Assets</i>			
Current assets	\$ 6,262,440	\$ 4,271,602	\$ 3,337,444
Capital assets, net	2,281,115	2,293,803	2,193,345
Total assets	\$ 8,543,555	\$ 6,565,405	\$ 5,530,789
<i>Liabilities and net assets</i>			
Current liabilities	\$ 969,513	\$ 987,878	\$ 2,313,048
Capital lease obligations	12,047	161,661	311,872
Total liabilities	981,560	1,149,539	2,624,920
<i>Net assets</i>			
Invested in capital assets, net of related debt	2,129,523	1,982,508	1,742,197
Unrestricted	5,432,472	3,433,358	1,163,672
Total net assets	7,561,995	5,415,866	2,905,869
Total liabilities and net assets	\$ 8,543,555	\$ 6,565,405	\$ 5,530,789

A significant component of the change in the Hospital's assets is the increase in current assets. In 2011, current assets increased by \$1,990,838. The most significant change in current assets is the increase in cash of \$1,826,029. Assets for 2011 are \$1,978,150 above 2010. Total assets for 2011 consist primarily of accounts receivable and cash. Total liabilities have decreased by \$167,979 over the last year due mainly to a reduction in payables and leases.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010**

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by \$2,146,129 or 39.6% as shown in Table 2. This is the result of total operating revenues decreasing \$537,110, and total operating expenses decreasing by \$286,010 in fiscal year 2011 as compared to fiscal year 2010.

Table 2. Operating Results and Changes in Net Assets

	2011	2010	2009
<i>Operating revenues</i>			
Net patient service revenue	\$ 9,485,680	\$ 10,324,167	\$ 9,951,869
Sole community provider	3,426,446	3,065,755	2,184,974
Grants and other operating revenue	87,683	146,997	142,577
Total operating revenues	12,999,809	13,536,919	12,279,420
<i>Operating expenses</i>			
Salaries, wages, and benefits	7,376,716	7,543,976	7,286,253
Supplies, insurance, and other	4,150,769	4,335,447	4,606,252
Depreciation and amortization	613,521	547,593	454,532
Total operating expenses	12,141,006	12,427,016	12,347,037
<i>Operating income (loss)</i>	858,803	1,109,903	(67,617)
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	819,307	772,950	711,296
Sierra County 412 Fund revenue	315,000	303,397	290,000
Grant revenue	-	-	200,000
Contributions	21,642	12,964	2,509
Interest expense	(18,844)	(35,885)	(69,616)
Other, net	6,880	4,093	1,943
Loss on disposal of capital asset	(15,500)	-	-
Total nonoperating revenues (expenses), net	1,128,485	1,057,519	1,136,132
Excess of revenues over expenses before capital contributions	1,987,288	2,167,422	1,068,515
<i>Capital contributions</i>	158,841	342,575	960,676
Change in net assets	2,146,129	2,509,997	2,029,191
Net assets, beginning of year	5,415,866	2,905,869	876,678
Net assets, end of year	\$ 7,561,995	\$ 5,415,866	\$ 2,905,869

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010**

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

During the year operating revenues decreased \$537,110 or 4.0% over the preceding year, based on decreased inpatient and outpatient volumes. Operating expenses decreased less in the amount of \$286,010 or 2.3%.

Consistent with the healthcare industry nationally, as well as in New Mexico, wages, payroll taxes, and employee benefits are typically the highest individual expense line items. Salary, wages and employee benefits decreased in 2011 by \$167,260 or 2.2%. This decrease is based on decreases in the full-time equivalents. 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 decreasing total expense of \$286,010.

Table 3. Budget to Actual

	Actual	Original and Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 14,287,135	\$ 14,072,870	\$ 214,265
Budgetary basis expenses	12,141,006	12,721,413	580,407
Excess of revenues over expenses	\$ 2,146,129	\$ 1,351,457	\$ 794,672

Actual results compare favorably to budgeted amounts for the hospital due to actual revenues being \$214,265 more than budgeted while actual expenses were \$580,407 less than budgeted. This results in a positive variance of \$794,672 with net income being \$2,146,129 as compared to budgeted net income of \$1,351,457, as shown in Table 3.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010**

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$2,281,115 invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the basic financial statements. In 2011, the Hospital purchased new depreciable assets costing \$634,018. The majority of the new additions are Health Information Technology related expenditures as we develop our Electronic Health Record.

Debt

At year end, the Hospital had \$151,592 in capital lease obligations outstanding as detailed in note 7 to the basic financial statements. The Hospital issued no new debt in 2011 or 2010. 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. However, the costs of not meeting such regulations 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, 2011 and 2010

ASSETS	2011	2010
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,287,256	\$ 1,461,227
Investment in certificates of deposit	120,357	-
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$1,166,000 and \$1,797,000, respectively	1,092,413	1,276,135
Sole community provider receivable	717,905	715,105
Taxes receivable	61,020	51,104
Estimated third-party payor settlements receivable	729,131	390,000
Inventories	223,100	198,152
Prepaid expenses	31,258	179,879
Total current assets	6,262,440	4,271,602
<i>Capital assets, net</i>	2,281,115	2,293,803
Total assets	\$ 8,543,555	\$ 6,565,405
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Current maturities of capital lease obligations	\$ 139,545	\$ 149,634
Accounts payable	317,322	268,447
Accrued compensation and related liabilities	512,646	512,876
Estimated third-party payor settlements payable	-	56,921
Total current liabilities	969,513	987,878
<i>Capital lease obligations, net of current maturities</i>	12,047	161,661
Total liabilities	981,560	1,149,539
<i>Net assets</i>		
Investment in capital assets, net of related debt	2,129,523	1,982,508
Unrestricted	5,432,472	3,433,358
Total net assets	7,561,995	5,415,866
Total liabilities and net assets	\$ 8,543,555	\$ 6,565,405

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, 2011 and 2010

	2011	2010
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$3,464,284 and \$2,612,198, respectively	\$ 9,485,680	\$ 10,324,167
Sole community provider	3,426,446	3,065,755
Grants	40,586	101,731
Other	47,097	45,266
Total operating revenues	12,999,809	13,536,919
<i>Operating expenses</i>		
Salaries and wages	6,341,750	6,447,603
Employee benefits	1,034,966	1,096,373
Professional fees	1,878,141	2,037,895
Supplies	1,097,114	1,055,982
Utilities	250,845	245,073
Repairs and maintenance	410,360	390,870
Leases and rentals	30,510	36,537
Depreciation and amortization	613,521	547,593
Insurance	334,441	341,735
Other	149,358	227,355
Total operating expenses	12,141,006	12,427,016
Operating income	858,803	1,109,903
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	300,873	270,098
Mill levy revenue	518,434	502,852
Sierra County 412 Fund revenue	315,000	303,397
Contributions	21,642	12,964
Interest income	6,880	4,093
Interest expense	(18,844)	(35,885)
Loss on disposal of capital assets	(15,500)	-
Total nonoperating revenues (expenses), net	1,128,485	1,057,519
Excess of revenues over expenses before capital grants and contributions	1,987,288	2,167,422
Capital grants and contributions	158,841	342,575
Change in net assets	2,146,129	2,509,997
Net assets, beginning of year	5,415,866	2,905,869
Net assets, end of year	\$ 7,561,995	\$ 5,415,866

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

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 12,696,996	\$ 12,064,236
Receipts from grants	40,586	39,494
Receipts from other revenue	47,097	45,266
Payments to employees	(7,376,946)	(7,517,127)
Payments to suppliers and contractors	(3,978,221)	(4,802,149)
Net cash provided by (used in) operating activities	1,429,512	(170,280)
<i>Cash flows from noncapital financing activities</i>		
Payments to the Joint Powers Commission entities	-	(34,816)
Contributions	21,642	12,964
Receipts from gross receipts tax	296,959	270,301
Receipts from mill levies	512,432	503,919
Receipts from Sierra County 412 Fund	315,000	303,397
Net cash provided by noncapital financing activities	1,146,033	1,055,765
<i>Cash flows from capital and related financing activities</i>		
Payment of capital lease obligations	(159,703)	(139,853)
Interest paid	(18,844)	(35,885)
Capital grants and contributions	158,841	342,575
Purchase of capital assets	(616,333)	(648,051)
Net cash used in capital and related financing activities	(636,039)	(481,214)
<i>Cash flows from investing activities</i>		
Purchase of investments	(120,357)	-
Interest received	6,880	4,093
Net cash provided by (used in) investing activities	(113,477)	4,093
Net increase in cash and cash equivalents	1,826,029	408,364
Cash and cash equivalents, beginning of year	1,461,227	1,052,863
Cash and cash equivalents, end of year	\$ 3,287,256	\$ 1,461,227

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

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
<i>Reconciliation of Operating Income to Net Cash</i>		
<i>Provided By (Used In) Operating Activities</i>		
Operating income	\$ 858,803	\$ 1,109,903
<i>Adjustments to reconcile operating income to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	613,521	547,593
Provision for bad debts	3,464,284	2,612,198
Changes in assets and liabilities:		
Patient accounts receivable	(3,280,562)	(2,531,097)
Sole community provider receivable	(2,800)	(183,457)
Estimated third-party payor settlements receivable	(339,131)	(390,000)
Inventories	(24,948)	11,860
Prepaid expenses	148,621	(46,568)
Medicaid advance	-	(150,000)
Accounts payable	48,875	(431,994)
Accrued compensation and related liabilities	(230)	26,849
Estimated third-party payor settlements payable	(56,921)	(683,330)
Deferred grant revenue	-	(62,237)
Net cash provided by (used in) operating activities	\$ 1,429,512	\$ (170,280)

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

Sierra Vista Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2011 and 2010

1. Description of Reporting Entity, Related Organizations, 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, New Mexico (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. Related Organizations

Sierra Vista Hospital Development Organization – The Sierra Vista Hospital Development Organization, Inc. (the Organization) is a separate nonprofit corporation. The Organization was organized to solicit and accept charitable contributions in order to provide support to the Hospital. The Organization's financial position is not material to the Hospital and has not been consolidated in these financial statements. The Organization contributed approximately \$-0- and \$241,000 to the Hospital during fiscal years 2011 and 2010, respectively. The Hospital provided support to the Organization of approximately \$29,000 and \$87,000 during fiscal years 2011 and 2010, 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, 2011 and 2010**

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

b. Related Organizations (continued)

Community Health Foundation – The Community Health Foundation (the Foundation) is a separate nonprofit corporation. 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 \$43,936 and \$16,236 to the Hospital during fiscal years 2011 and 2010, respectively.

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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

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

c. Summary of Significant Accounting Policies (continued)

Income taxes – The Hospital is exempt from federal and state income tax as it is jointly owned by the County, the 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, 2011 and 2010.

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, the 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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

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

c. Summary of Significant Accounting Policies (continued)

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.

Sole community provider – The Hospital qualifies as a sole community provider (SCP) hospital based on the Indigent Hospital and County Health Care Act (the Act). The Sole Community Provider Fund (Fund) was established under this Act. The Fund is administered by the New Mexico Human Services Department and consists of funds provided by counties to match federal funds for Medicaid Sole Community Provider hospital payments. Money in the Fund is used to make SCP hospital payments pursuant to the State Medicaid Program.

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. 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.

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 September 19, 2011, the date on which the financial statements were available to be issued.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

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 \$3,607,510 and \$1,713,097 at June 30, 2011 and 2010, 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, 2011 and 2010

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 were on a cost basis through October 31, 2010; subsequent to October 31, 2010, outpatient services are paid under a prospective payment system. 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 28% and 29%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011. Revenue from the Medicare and Medicaid programs accounted for approximately 20% and 22%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2010. 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 \$190,000 in 2011, and increased approximately \$191,000 in 2010, due to differences between original estimates and final settlements or revised estimates.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

4. Net Patient Service Revenue (continued):

Gross revenue, contractual adjustments, provision for bad debts, and charity care for the years ended June 30, 2011 and 2010, were as follows:

	2011	2010
Gross patient service revenue	\$ 19,237,352	\$ 21,468,048
Less charity care	285,210	463,117
	18,952,142	21,004,931
<i>Contractual Adjustments</i>		
Medicare	3,420,281	4,589,939
Medicaid	1,541,086	973,321
Other	1,040,811	2,505,306
Provision for bad debts	3,464,284	2,612,198
Net patient service revenue	\$ 9,485,680	\$ 10,324,167

5. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the Hospital at June 30, 2011 and 2010, consisted of these amounts:

	2011	2010
Receivable from patients and their insurance carriers	\$ 1,657,894	\$ 2,428,794
Receivable from Medicare	402,319	497,336
Receivable from Medicaid	197,922	147,005
Total patient accounts receivable	2,258,135	3,073,135
Less allowance for uncollectible accounts	1,165,722	1,797,000
Net patient accounts receivable	\$ 1,092,413	\$ 1,276,135

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, 2011 and 2010

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2011, were as follows:

	2011				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Land	\$ 75,000	\$ -	\$ -	\$ -	\$ 75,000
Total capital assets not being depreciated	75,000	-	-	-	75,000
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,206,362	281,132	-	258,020	1,745,514
Equipment	3,534,673	352,886	(49,855)	(258,020)	3,579,684
Total capital assets being depreciated	4,741,035	634,018	(49,855)	-	5,325,198
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(646,525)	(84,964)		(216,722)	(948,211)
Equipment	(1,875,707)	(528,557)	16,670	216,722	(2,170,872)
Total accumulated depreciation	(2,522,232)	(613,521)	16,670	-	(3,119,083)
Total capital assets being depreciated, net	2,218,803	20,497	(33,185)	-	2,206,115
Capital assets, net of accumulated depreciation	\$ 2,293,803	\$ 20,497	\$ (33,185)	\$ -	\$ 2,281,115

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

6. Capital Assets (continued):

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

	2010				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<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, 2011 and 2010

7. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for 2011 and 2010 follows:

	2011				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Capital lease obligations	\$ 311,295	\$ -	\$ (159,703)	\$ 151,592	\$ 139,545
Compensated absences	241,828	753,002	(761,395)	233,435	233,435
Total noncurrent liabilities	\$ 553,123	\$ 753,002	\$ (921,098)	\$ 385,027	\$ 372,980

	2010				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
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

Capital lease obligations at varying rates of imputed interest from 6.41% to 10.10% collateralized by leased building and equipment. At June 30, 2011, the capitalized costs and net book value of the capital lease obligations were \$604,965 and \$66,490, respectively. 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
2012	\$ 139,545	\$ 5,791	\$ 145,336
2013	12,047	66	12,113
	\$ 151,592	\$ 5,857	\$ 157,449

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

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 \$518,000 and \$503,000 in 2011 and 2010, 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 \$301,000 and \$270,000 in 2011 and 2010, 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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:

The Hospital provides the DATAIR Section 403(b) Non-ERISA Basic plan (the Plan). 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 \$44,000 and \$49,000 during the years ended June 30, 2011 and 2010, respectively. The Hospital will match up to 3% of each employee's contribution. The Hospital's contributions to the Plan were approximately \$28,000 and \$27,000 for the years ended June 30, 2011 and 2010, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

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, 2011 and 2010, was as follows:

	2011	2010
Medicare	26 %	25 %
Medicaid	10	7
Private pay	32	22
Commercial and other	32	46
	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 a 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 0.25% 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 \$315,000 and \$303,000, respectively, for the years ended June 30, 2011 and 2010.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2011 and 2010

13. Related-party Transactions:

The Hospital purchased dispatch services from the County of approximately \$25,000 in the fiscal years ended June 30, 2011 and 2010.

The Hospital purchased electricity from the City of approximately \$134,000 and \$125,000 during the fiscal years ended June 30, 2011 and 2010, respectively.

14. State of New Mexico Capital Appropriation:

The State of New Mexico (the State) originally appropriated \$1,352,785 and \$750,000 during 2007. In addition, the State originally appropriated \$1,024,000 during 2008. During October 2010, the State re-appropriated the amounts from 2007 to \$1,326,757 and \$67,961 and the 2008 amount to \$1,013,760. 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 2013, 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, 2011, the remaining balances of the 2007 appropriations are \$1,326,757 and \$67,961, and the remaining balance of the 2008 appropriation is \$1,013,760.

SUPPLEMENTAL INFORMATION

Sierra Vista Hospital
Schedules of Pledged Collateral – Bank of the Southwest
Years Ended June 30, 2011 and 2010

	2011	2010
Bank of the Southwest – Joint Powers Group checking account	\$ 95,987	\$ 48,376
Bank of the Southwest – employee advancement fund account	5,506	5,214
Bank of the Southwest – operating checking account	250,484	255,295
Bank of the Southwest – payroll checking account	26,162	13,798
Bank of the Southwest – savings account	3,109,371	1,390,414
Total amount of deposits per bank	3,487,510	1,713,097
Less FDIC insurance	500,000	500,000
Total uninsured public funds	\$ 2,987,510	\$ 1,213,097
50% collateral requirement	\$ 1,493,755	\$ 606,549
<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	9,731	10,869
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, matures September 19, 2011	450,000	-
FHLB letter of credit, matures June 4, 2012	1,000,000	-
FHLB letter of credit, matures June 6, 2012	300,000	-
Total pledged securities	1,759,731	910,869
Excess of pledged securities over collateral requirement	\$ 265,976	\$ 304,320
Total amount of deposits per bank	\$ 3,487,510	\$ 1,713,097
Less reconciling items	200,254	251,870
Total cash and cash equivalents	\$ 3,287,256	\$ 1,461,227

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedules of Pledged Collateral – First Savings Bank
Years Ended June 30, 2011 and 2010

	2011	2010
First Savings Bank – certificate of deposit	\$ 120,000	\$ -
Less FDIC insurance	250,000	-
Total uninsured public funds	\$ -	\$ -

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2011

	Actual	Final Approved Budget	Over (Under) Budget
<i>Revenues</i>			
Net patient service revenue	\$ 9,485,680	\$ 9,851,164	\$ (365,484)
Other	47,097	159,040	(111,943)
Nonoperating revenues (expenses), net	4,754,358	4,062,666	691,692
Total revenues	14,287,135	14,072,870	214,265
<i>Expenses</i>			
Salaries, wages, and benefits	7,376,716	8,046,754	(670,038)
Other	4,764,290	4,674,659	89,631
Total expenses	12,141,006	12,721,413	(580,407)
Change in net assets	\$ 2,146,129	\$ 1,351,457	\$ 794,672

See accompanying independent auditors' report.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

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 of Sierra Vista Hospital (the Hospital), as of and for the year ended June 30, 2011, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated September 19, 2011. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2011, 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 in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated September 19, 2011.

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
September 19, 2011

**Sierra Vista Hospital
Summary Status of Prior Year Findings
Year Ended June 30, 2011**

Sierra Vista Hospital:

10-01 Cash Disbursements Testing – Resolved

01-06 Late Submission of Audit Report – Resolved

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2011**

An exit conference was held August 31, 2011, with the Finance Committee to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Terry Squier	Governing Board, Chairman
Terry Egan	Governing Board
Adrienne Podlesny	Governing Board
James Hunt	Governing Board, Guest
Domenica Rush	Administrator
Bret Goebel	Contracted Chief Financial Officer
Jean Briley	Chief Operating Officer
Belinda Cloud	Controller
Tom Dingus	Dingus, Zarecor & Associates PLLC
Holly Sliva	Dingus, Zarecor & Associates PLLC

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