

Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2012 and 2011



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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	13-25
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedule of pledged collateral – Bank of the Southwest	26
Schedule of pledged collateral – First Savings Bank	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
Summary status of prior year findings	31
Exit conference	32

INTRODUCTORY SECTION

**Sierra Vista Hospital
Governing Board and Principal Employees
June 30, 2012**

County of Sierra, New Mexico, Representatives

Barry Ragsdale, Chairperson
Nadyne Gardner Daves
Terry Egan

City of Truth or Consequences, New Mexico, Representatives

Zenith Baker
James Hunt
Warren Cross

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
Juan Fuentes, City of Truth or Consequences, New Mexico, City Manager
Linda Bauer, Village of Williamsburg, New Mexico, Village Clerk
Alan Briley, City of Elephant Butte, New Mexico, City Manager

Principal Employee

Domenica Rush, Administrator

FINANCIAL SECTION



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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, 2012 and 2011, 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, 2012, 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, 2012 and 2011, 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, 2012, 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 27, 2012, 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 audit.

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 27, 2012

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011**

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, 2012 and 2011. 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 \$3,736,472 or 49.4% increase in 2012 and \$2,146,129 or 39.6% increase in 2011.
- The Hospital in 2012 reported an increase in operating income of \$928,326 over the income reported in 2011. The operating income in 2011 decreased by \$256,399 over the income reported in 2010.
- Nonoperating net revenues increased by \$244,773 or 21.7% in 2012 compared to 2011. Nonoperating net revenues increased by \$70,966 or 6.7% in 2011 compared to 2010.

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, 2012 and 2011**

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 \$3,736,472 or 49.4% in 2012 and \$2,146,129 or 39.6% in 2011, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Assets

	2012	2011	2010
<i>Assets</i>			
Current assets	\$ 8,754,431	\$ 6,262,440	\$ 4,271,602
Capital assets, net	3,393,200	2,281,115	2,293,803
Total assets	\$ 12,147,631	\$ 8,543,555	\$ 6,565,405
<i>Liabilities and net assets</i>			
Current liabilities	\$ 849,164	\$ 969,513	\$ 930,957
Capital lease obligations	-	12,047	161,661
Total liabilities	849,164	981,560	1,092,618
<i>Net assets</i>			
Invested in capital assets, net of related debt	3,393,200	2,129,523	1,982,508
Unrestricted	7,905,267	5,432,472	3,433,358
Total net assets	11,298,467	7,561,995	5,415,866
Total liabilities and net assets	\$ 12,147,631	\$ 8,543,555	\$ 6,508,484

A significant component of the change in the Hospital's assets is the increase in current assets. In 2012, current assets increased by \$2,491,991. The most significant change in current assets is the increase in cash of \$2,237,461. Assets for 2012 are \$3,604,076 above 2011. Total assets for 2012 consist primarily of cash, net accounts receivable, and net capital assets. Total liabilities have decreased by \$132,396 over the last year due mainly to a reduction in payables and leases.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2012 and 2011**

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's operating income increased by \$928,326. This is the result of total operating revenues increasing \$1,814,910, and total operating expenses increasing by \$886,584 in fiscal year 2012 as compared to fiscal year 2011. Other revenues contributed to net assets increasing by \$3,736,472.

Table 2. Operating Results and Changes in Net Assets

	2012	2011	2010
<i>Operating revenues</i>			
Net patient service revenue	\$ 10,331,404	\$ 9,485,680	\$ 10,324,167
Sole community provider	3,225,339	3,426,446	3,065,755
EHR incentive revenue	828,699	-	-
Grants and other operating revenue	429,277	87,683	152,296
Total operating revenues	14,814,719	12,999,809	13,542,218
<i>Operating expenses</i>			
Salaries, wages, and benefits	7,555,988	7,376,716	7,543,976
Supplies, insurance, and other	4,777,375	4,150,769	4,335,447
Depreciation and amortization	694,227	613,521	547,593
Total operating expenses	13,027,590	12,141,006	12,427,016
<i>Operating income</i>	1,787,129	858,803	1,115,202
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	1,010,013	819,307	772,950
Sierra County 412 Fund revenue	334,395	315,000	303,397
Contributions	5,121	21,642	12,964
Interest expense	(8,224)	(18,844)	(35,885)
Interest income	17,465	6,880	4,093
Gain (loss) on disposal of capital asset	14,488	(15,500)	-
Total nonoperating revenues (expenses), net	1,373,258	1,128,485	1,057,519
Excess of revenues over expenses	3,160,387	1,987,288	2,172,721
State appropriations for capital	947,107	-	-
Transfer to Sierra County for mortgage	(448,850)	-	-
Capital grants and contributions	77,828	158,841	337,276
Change in net assets	3,736,472	2,146,129	2,509,997
Net assets, beginning of year	7,561,995	5,415,866	2,905,869
Net assets, end of year	\$ 11,298,467	\$ 7,561,995	\$ 5,415,866

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2012 and 2011**

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

During the year operating revenues increased \$1,814,910 or 14.0% over the preceding year, based on increased inpatient and outpatient volumes, EHR incentive revenues and grants. Operating expenses increased less in the amount of \$886,584 or 7.3%.

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 increased in 2012 by \$179,272 or 2.4%. This increase is based on increases 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.

Increase in other expense items contributed to increasing total expense of \$886,584.

Table 3. Budget to Actual

	Actual	Original and Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 16,764,062	\$ 12,833,964	\$ 3,930,098
Budgetary basis expenses	13,027,590	12,399,744	(627,846)
Excess of revenues over expenses	\$ 3,736,472	\$ 434,220	\$ 3,302,252

Actual results compare favorably to budgeted amounts for the hospital due to actual revenues being \$3,930,098 more than budgeted while actual expenses were \$627,846 more than budgeted. This results in a positive variance of \$3,302,252 with net income being \$3,736,472 as compared to budgeted net income of \$434,220, as shown in Table 3.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2012 and 2011**

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$3,393,200 invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the basic financial statements. In 2012, the Hospital purchased new assets costing \$1,809,377. The majority of the additions are related to expenditures for equipment, site improvement, and construction-in-progress for the elevator replacement and emergency room renovation.

Debt

At year end, the Hospital had no capital lease obligations outstanding as detailed in note 6 to the basic financial statements. The Hospital issued no new debt in 2012 or 2011. 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, 2012 and 2011

ASSETS	2012	2011
<i>Current assets</i>		
Cash and cash equivalents	\$ 5,524,717	\$ 3,287,256
Investment in certificates of deposit	121,083	120,357
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$1,312,000 and \$1,166,000, respectively	953,361	1,092,413
Sole community provider receivable	985,345	717,905
Electronic health records system incentive	226,000	-
Grants receivable	120,546	-
Taxes receivable	126,939	61,020
Estimated third-party payor settlements receivable	501,270	729,131
Inventories	150,644	223,100
Prepaid expenses	44,526	31,258
Total current assets	8,754,431	6,262,440
<i>Capital assets, net</i>	3,393,200	2,281,115
Total assets	\$ 12,147,631	\$ 8,543,555
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Current maturities of capital lease obligations	\$ -	\$ 139,545
Accounts payable	262,284	317,322
Accrued compensation and related liabilities	586,880	512,646
Total current liabilities	849,164	969,513
<i>Capital lease obligations, net of current maturities</i>	-	12,047
Total liabilities	849,164	981,560
<i>Net assets</i>		
Investment in capital assets, net of related debt	3,393,200	2,129,523
Unrestricted	7,905,267	5,432,472
Total net assets	11,298,467	7,561,995
Total liabilities and net assets	\$ 12,147,631	\$ 8,543,555

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, 2012 and 2011

	2012	2011
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$3,037,154 and \$3,065,901, respectively	\$ 10,331,404	\$ 9,485,680
Sole community provider	3,225,339	3,426,446
Electronic health records system incentive	828,699	-
Grants	317,082	40,586
Other	112,195	47,097
Total operating revenues	14,814,719	12,999,809
<i>Operating expenses</i>		
Salaries and wages	6,507,758	6,341,750
Employee benefits	1,048,230	1,034,966
Professional fees	2,267,822	1,878,141
Supplies	1,153,390	1,097,114
Utilities	256,733	250,845
Repairs and maintenance	540,209	410,360
Leases and rentals	35,239	30,510
Depreciation and amortization	694,227	613,521
Insurance	270,293	334,441
Other	253,689	149,358
Total operating expenses	13,027,590	12,141,006
Operating income	1,787,129	858,803
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	460,529	300,873
Mill levy revenue	549,484	518,434
Sierra County 412 Fund revenue	334,395	315,000
Contributions	5,121	21,642
Interest income	17,465	6,880
Interest expense	(8,224)	(18,844)
Gain (loss) on disposal of capital assets	14,488	(15,500)
Total nonoperating revenues (expenses), net	1,373,258	1,128,485
Excess of revenues over expenses	3,160,387	1,987,288
State appropriations for capital	947,107	-
Transfer to Sierra County for mortgage	(448,850)	-
Capital grants and contributions	77,828	158,841
Change in net assets	3,736,472	2,146,129
Net assets, beginning of year	7,561,995	5,415,866
Net assets, end of year	\$ 11,298,467	\$ 7,561,995

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

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 13,656,216	\$ 12,696,996
Receipts from grants	196,536	40,586
Receipts from other revenue	112,195	47,097
Electronic health records system incentive	602,699	-
Payments to employees	(7,481,754)	(7,376,946)
Payments to suppliers and contractors	(4,773,225)	(3,978,221)
Net cash provided by operating activities	2,312,667	1,429,512
<i>Cash flows from noncapital financing activities</i>		
Contributions	5,121	21,642
Receipts from gross receipts tax	395,760	296,959
Receipts from mill levies	548,334	512,432
Receipts from Sierra County 412 Fund	334,395	315,000
Net cash provided by noncapital financing activities	1,283,610	1,146,033
<i>Cash flows from capital and related financing activities</i>		
Payment of capital lease obligations	(151,592)	(159,703)
Interest paid	(8,224)	(18,844)
Capital grants and contributions	77,828	158,841
Purchase of capital assets	(1,791,824)	(616,333)
State appropriations	947,107	-
Transfer to Sierra County for mortgage	(448,850)	-
Net cash used in capital and related financing activities	(1,375,555)	(636,039)
<i>Cash flows from investing activities</i>		
Purchase of investments	(726)	(120,357)
Interest received	17,465	6,880
Net cash provided by (used in) investing activities	16,739	(113,477)
Net increase in cash and cash equivalents	2,237,461	1,826,029
Cash and cash equivalents, beginning of year	3,287,256	1,461,227
Cash and cash equivalents, end of year	\$ 5,524,717	\$ 3,287,256

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

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash		
Provided By Operating Activities		
Operating income	\$ 1,787,129	\$ 858,803
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation and amortization	694,227	613,521
Provision for bad debts	3,037,154	3,065,901
Decrease (increase) in assets and liabilities:		
Receivables:		
Patient accounts	(2,898,102)	(2,882,179)
Electronic health records system incentive	(226,000)	-
Grants	(120,546)	-
Sole community provider	(267,440)	(2,800)
Estimated third-party payor settlements	227,861	(339,131)
Inventories	72,456	(24,948)
Prepaid expenses	(13,268)	148,621
Increase (decrease) in liabilities:		
Accounts payable	(55,038)	48,875
Accrued compensation and related liabilities	74,234	(230)
Estimated third-party payor settlements	-	(56,921)
Total adjustments	525,538	570,709
Net cash provided by operating activities	\$ 2,312,667	\$ 1,429,512

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

**Sierra Vista Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011**

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 did not make contributions to the Hospital during fiscal years 2012 and 2011. The Hospital provided support to the Organization of approximately \$29,000 during fiscal year 2011. 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, 2012 and 2011

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 \$77,828 and \$43,936 to the Hospital during fiscal years 2012 and 2011, 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.

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

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, 2012 and 2011

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, 2012 and 2011.

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.

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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

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

c. Summary of Significant Accounting Policies (continued)

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.

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.

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 27, 2012, the date on which the financial statements were available to be issued.

2. 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 \$6,127,220 and \$3,607,510 at June 30, 2012 and 2011, respectively, none were 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, 2012 and 2011

3. 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 52% and 23%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012. Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 30%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011.

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 \$39,000 and increased \$190,000 in 2012 and 2011, respectively, due to differences between original estimates and final settlements or revised estimates.

The Hospital provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Hospital's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system.

The costs of caring for charity care patients for the years ended June 31, 2012 and 2011, were approximately \$374,000 and \$452,000, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

3. Net Patient Service Revenue (continued):

Gross revenue, contractual adjustments, provision for bad debts, and charity care for the years ended June 30, 2012 and 2011, were as follows:

	2012	2011
Gross patient service revenue	\$ 20,502,899	\$ 19,237,352
Less: Charity care	567,828	714,712
	19,935,071	18,522,640
<i>Contractual Adjustments</i>		
Medicare	3,922,323	3,420,281
Medicaid	1,404,062	1,541,086
Other	1,240,128	1,009,692
Provision for bad debts	3,037,154	3,065,901
	9,603,667	9,036,960
Net patient service revenue	\$ 10,331,404	\$ 9,485,680

4. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the Hospital at June 30, 2012 and 2011, consisted of these amounts:

	2012	2011
Receivable from patients and their insurance carriers	\$ 1,704,185	\$ 1,657,894
Receivable from Medicare	420,325	402,319
Receivable from Medicaid	140,626	197,922
Total patient accounts receivable	2,265,136	2,258,135
Less allowance for uncollectible accounts	1,311,775	1,165,722
Net patient accounts receivable	\$ 953,361	\$ 1,092,413

5. 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, 2012 and 2011

5. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2012, were as follows:

	2012				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ -	\$ 487,881	\$ -	\$ -	\$ 487,881
Land	75,000	10,000	-	-	85,000
Total capital assets not being depreciated	75,000	497,881	-	-	572,881
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,745,514	565,026	(71,602)	-	2,238,938
Equipment	3,579,684	746,470	(11,183)	-	4,314,971
Total capital assets being depreciated	5,325,198	1,311,496	(82,785)	-	6,553,909
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(948,211)	(133,536)	71,602	-	(1,010,145)
Equipment	(2,170,872)	(560,691)	8,118	-	(2,723,445)
Total accumulated depreciation	(3,119,083)	(694,227)	79,720	-	(3,733,590)
Total capital assets being depreciated, net	2,206,115	617,269	(3,065)	-	2,820,319
Capital assets, net of accumulated depreciation	\$ 2,281,115	\$ 1,115,150	\$ (3,065)	\$ -	\$ 3,393,200

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

5. 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>					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
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

Construction in progress at June 30, 2012, consisted of the following projects:

- Elevator fees relating to the rebuilding of the existing elevators. Total project costs are estimated to be approximately \$256,000, with an approximate \$77,000 cost to complete this project.
- Emergency room expansion is being financed with a combination of State appropriation money and reserves. The estimated cost to complete the project is \$2,000,000.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

6. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for 2012 and 2011 follows:

	2012					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
Capital lease obligations	\$ 151,592	\$ -	\$ (151,592)	\$ -	\$ -	\$ -
Compensated absences	233,435	522,177	(500,216)	255,396		255,396
Total noncurrent liabilities	\$ 385,027	\$ 522,177	\$ (651,808)	\$ 255,396		\$ 255,396

	2011					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
Capital lease obligations	\$ 311,295	\$ -	\$ (159,703)	\$ 151,592	\$ 139,545	\$ 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

7. 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 \$549,000 and \$518,000 in 2012 and 2011, 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 County, City, Elephant Butte, and the Village, approximating \$461,000 and \$301,000 in 2012 and 2011, respectively.

8. Contingencies:

Risk management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; 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.

Medical malpractice claims – 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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

8. Contingencies (continued):

Litigation – 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.

Industry regulations – 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.

9. 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 \$40,000 and \$44,000 during the years ended June 30, 2012 and 2011, 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 \$28,000 for the years ended June 30, 2012 and 2011, respectively.

10. 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, 2012 and 2011, was as follows:

	2012	2011
Medicare	29 %	26 %
Medicaid	9	10
Patients	46	32
Commercial and other	16	32
	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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

11. 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 was 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 was being 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 \$334,000 and \$315,000, respectively, for the years ended June 30, 2012 and 2011.

During the fiscal year ended June 30, 2012, the Hospital transferred \$448,850 to the County to pay in full the remaining promissory note balance.

The Hospital now will receive 100% of the gross receipts tax revenue.

12. Related-party Transactions:

The Hospital purchased dispatch services from the County of approximately \$25,000 in the fiscal years ended June 30, 2012 and 2011.

The Hospital purchased electricity from the City of approximately \$142,000 and \$134,000 during the fiscal years ended June 30, 2012 and 2011, respectively.

The Hospital contracted with a board member for pharmacy services of approximately \$5,000 and \$-0- during the fiscal years ended June 30, 2012 and 2011, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

13. 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. During the fiscal year ended June 30, 2012, the 2007 amount of \$67,961 was taken back by the State for another purpose and the 2008 appropriation decreased by approximately \$197,000 when the State used this amount for another purpose.

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, 2012, the remaining balances of the appropriations are \$1,213,375.

The County transferred \$947,107 of the appropriations to the Hospital during the fiscal year ended June 30, 2012.

14. Electronic Health Records Incentive Payment:

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the year ended June 30, 2012. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The Hospital recognizes the Medicare incentive payment on the date that the Hospital has successfully complied with meaningful use criteria during the entire EHR reporting period. The Hospital attested to meaningful use with the Centers for Medicare and Medicaid Services (CMS) on October 4, 2011. The Medicare EHR reporting period is through September 30 of each year.

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the current Medicare cost report. A Medicare incentive payment of \$612,199 was recognized as revenue in 2012.

The Hospital recognized the first of its three Medicaid incentive payments in the year that certified EHR technology was adopted, implemented, or upgraded or when such technology was meaningfully used under the Medicare EHR incentive program. The subsequent two payments will be issued when meaningful use is demonstrated under Medicare. A Medicaid incentive payment of \$216,500 was recognized as revenue in 2012. Subsequent payments will be recognized in 2013 and 2014.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2012 and 2011

15. Subsequent Events:

The Hospital purchased land adjacent to the Hospital in July 2013 for \$325,704. The land was purchased for the emergency room and central plant expansion project.

The hospital is also undergoing hospital expansion. A new emergency room and central plant will be constructed in fiscal year 2013. The State appropriation money will be used to finance this project along with a \$4,600,000 tax-exempt financing through the New Mexico Financing Authority secured by Sierra County gross receipts tax collections. Operating funds may be necessary for some of the project.

16. Line of Credit:

The Hospital has secured lines of credit with local institutions for a total of \$1,600,000. The intent of these funds is for the possible participation in the Sole Community Provider program more fully described in Note 1.C.

SUPPLEMENTAL INFORMATION

Sierra Vista Hospital
Schedules of Pledged Collateral – Bank of the Southwest
Years Ended June 30, 2012 and 2011

	2012	2011
Bank of the Southwest – Joint Powers Group checking account	\$ 199,016	\$ 95,987
Bank of the Southwest – employee advancement fund account	5,930	5,506
Bank of the Southwest – Bobbie West scholarship account	5,487	-
Bank of the Southwest – operating checking account	791,770	250,484
Bank of the Southwest – payroll checking account	25,195	26,162
Bank of the Southwest – savings account	4,978,739	3,109,371
Total amount of deposits per bank	6,006,137	3,487,510
Less FDIC insurance	500,000	500,000
Total uninsured public funds	\$ 5,506,137	\$ 2,987,510
50% collateral requirement	\$ 2,753,069	\$ 1,493,755
<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
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
FHLB letter of credit, matures September 19, 2012	75,000	-
FHLB letter of credit, matures November 30, 2012	250,000	-
FHLB letter of credit, matures January 7, 2013	550,000	-
FHLB letter of credit, matures April 1, 2013	200,000	-
FHLB letter of credit, matures May 1, 2013	400,000	-
FHLB letter of credit, matures June 5, 2013	1,000,000	-
FHLB letter of credit, matures June 7, 2013	300,000	-
Total pledged securities	2,775,000	1,759,731
Excess of pledged securities over collateral requirement	\$ 21,931	\$ 265,976
Total amount of deposits per bank	\$ 6,006,137	\$ 3,487,510
Less reconciling items	481,420	200,254
Total cash and cash equivalents	\$ 5,524,717	\$ 3,287,256

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedules of Pledged Collateral – First Savings Bank
Years Ended June 30, 2012 and 2011

	2012	2011
First Savings Bank – certificate of deposit	\$ 120,000	\$ 120,000
Less FDIC insurance	250,000	250,000
Total uninsured public funds	\$ -	\$ -

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2012

	Actual	Final Approved Budget	Over (Under) Budget
<i>Revenues</i>			
Net patient service revenue	\$ 10,331,404	\$ 8,411,945	\$ 1,919,459
Other	112,195	123,273	(11,078)
Nonoperating revenues (expenses) and other, net	6,320,463	4,298,746	2,021,717
Total revenues	16,764,062	12,833,964	3,930,098
<i>Expenses</i>			
Salaries, wages, and benefits	7,555,988	7,629,288	(73,300)
Other	5,471,602	4,770,456	701,146
Total expenses	13,027,590	12,399,744	627,846
Change in net assets	\$ 3,736,472	\$ 434,220	\$ 3,302,252

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 of Sierra Vista Hospital (the Hospital), as of and for the year ended June 30, 2012, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated September 27, 2012. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2012, 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*.

This report is intended solely for the information and use of the Joint Powers 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 27, 2012

**Sierra Vista Hospital
Summary Status of Prior Year Findings
Year Ended June 30, 2012**

Sierra Vista Hospital:

The schedule of audit findings for the year ended June 30, 2011 reported no audit findings, nor were there any unresolved findings from periods ending June 30, 2010 or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2012.

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2012**

An exit conference was held September 26, 2012, with the Finance Committee to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Adrienne Podlesny	Governing Board, Chair
Terry Squier	Governing Board
Terry Egan	Governing Board
Domenica Rush	Administrator
Bret Goebel	Contracted Chief Financial Officer
Belinda Cloud	Controller
Tom Dingus	Dingus, Zarecor & Associates PLLC

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