

# **Sierra Vista Hospital**

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2013 and 2012



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

**Sierra Vista Hospital**  
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## **INTRODUCTORY SECTION**

**Sierra Vista Hospital  
Governing Board and Principal Employee  
June 30, 2013**

*County of Sierra, New Mexico, Representatives*

Barry Ragsdale, Chairperson  
Terry Egan  
Nadyne Gardner Daves

*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  
Lauraleigh deWyer, Sierra Vista Hospital, Chief Operations Officer  
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**



## 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

### **Report on the Financial Statements**

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2013, presented as supplemental information as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the Hospital for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements and budgetary comparison. The schedule of pledged collateral and schedule of individual deposit and investment accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral and schedule of individual deposit and investment accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 11, 2013



**Sierra Vista Hospital  
Management's Discussion and Analysis  
June 30, 2013 and 2012**

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, 2013 and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

**Financial Highlights**

- The Hospital's net position increased in 2013 by \$243,466 or 2.2% and increased in 2012 by \$3,736,472 or 49.4%.
- The Hospital in 2013 reported a decrease in operating income of \$3,463,869 from the income reported in 2012. The operating income in 2012 increased by \$928,326 over the income reported in 2011.
- Nonoperating net revenues decreased by \$330,328 or 24.1% in 2013 compared to 2012. Nonoperating net revenues increased by \$244,773 or 21.7% in 2012 compared to 2011.

**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 Position; 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 Position**

Our analysis of the Hospital finances begins on page 6. 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 Position 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 position and changes in them. You can think of the Hospital's net position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will 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, 2013 and 2012**

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet, on page 10. The Hospital's net position increased by \$243,466 or 2.2% in 2013 and \$3,736,472 or 49.4% in 2012, as shown in Table 1.

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<i>Assets</i>			
Current assets	\$ 8,599,864	\$ 8,754,431	\$ 6,262,440
Capital assets, net	4,558,188	3,393,200	2,281,115
<b>Total assets</b>	<b>\$ 13,158,052</b>	<b>\$ 12,147,631</b>	<b>\$ 8,543,555</b>
<i>Liabilities</i>			
Current liabilities	\$ 1,616,119	\$ 849,164	\$ 969,513
Capital lease obligations	-	-	12,047
<b>Total liabilities</b>	<b>1,616,119</b>	<b>849,164</b>	<b>981,560</b>
<i>Net position</i>			
Net investment in capital assets	4,558,188	3,393,200	2,129,523
Unrestricted	6,983,745	7,905,267	5,432,472
<b>Total net position</b>	<b>11,541,933</b>	<b>11,298,467</b>	<b>7,561,995</b>
<b>Total liabilities and net position</b>	<b>\$ 13,158,052</b>	<b>\$ 12,147,631</b>	<b>\$ 8,543,555</b>

A significant component of the change in the Hospital's assets is the increase in current assets. In 2013, current assets decreased by \$154,567. Assets for 2013 increased \$1,010,421 from 2012. Total assets for 2013 consist primarily of cash and investments, sole community provider receivable, and net capital assets. Total liabilities have increased by \$766,955 over the last year due mainly to an increase in payables.

**Sierra Vista Hospital  
Management's Discussion and Analysis (Continued)  
June 30, 2013 and 2012**

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

In 2013, the Hospital's operating income decreased by \$3,463,869. This is the result of total operating revenues decreasing \$2,987,120, and total operating expenses increasing by \$476,749 in fiscal year 2013 as compared to fiscal year 2012. Other revenues contributed to net position decreasing by \$2,590,687.

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

	2013	2012	2011
<i>Operating revenues</i>			
Net patient service revenue	\$ 9,934,971	\$ 10,331,404	\$ 9,485,680
Sole community provider	1,542,908	3,225,339	3,426,446
EHR incentive revenue	16,910	828,699	-
Grants and other operating revenue	332,810	429,277	87,683
<b>Total operating revenues</b>	<b>11,827,599</b>	<b>14,814,719</b>	<b>12,999,809</b>
<i>Operating expenses</i>			
Salaries, wages, and benefits	7,945,424	7,555,988	7,376,716
Supplies, insurance, and other	4,784,338	4,777,375	4,150,769
Depreciation	774,577	694,227	613,521
<b>Total operating expenses</b>	<b>13,504,339</b>	<b>13,027,590</b>	<b>12,141,006</b>
<i>Operating income (loss)</i>	<b>(1,676,740)</b>	1,787,129	858,803
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	977,096	1,010,013	819,307
Sierra County 412 Fund revenue	-	334,395	315,000
Contributions	37,267	5,121	21,642
Interest expense	-	(8,224)	(18,844)
Interest income	28,567	17,465	6,880
Gain (loss) on disposal of capital asset	-	14,488	(15,500)
<b>Total nonoperating revenues (expenses), net</b>	<b>1,042,930</b>	<b>1,373,258</b>	<b>1,128,485</b>
Excess of revenues over expenses (expenses over revenues)	<b>(633,810)</b>	3,160,387	1,987,288
State appropriations for capital	<b>869,562</b>	947,107	-
Transfer to Sierra County for bond debt service	<b>(102,220)</b>	(448,850)	-
Capital grants and contributions	<b>109,934</b>	77,828	158,841
Change in net position	<b>243,466</b>	3,736,472	2,146,129
Net position, beginning of year	<b>11,298,467</b>	7,561,995	5,415,866
<b>Net position, end of year</b>	<b>\$ 11,541,933</b>	<b>\$ 11,298,467</b>	<b>\$ 7,561,995</b>

**Sierra Vista Hospital  
Management's Discussion and Analysis (Continued)  
June 30, 2013 and 2012**

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

During the year operating revenues decreased \$2,987,120 or 20.2%. Operating expenses increased in the amount of \$476,749 or 3.7%. The operating revenues for the Hospital are separated into four categories and each one reduced in fiscal year 2013 as compared to fiscal year 2012.

- Net patient service revenue decreased \$396,000 due to lower patient volumes.
- Sole community provider revenue decreased over 50% by \$1,682,000 due to significant changes made by the Centers for Medicare & Medicaid Services and New Mexico Human Services Department.
- The Hospital received a smaller electronic health record incentive payment during fiscal year 2013 compared to over \$800,000 for fiscal year 2012.
- Grants and other operating revenues for fiscal year 2013 reduced by nearly \$100,000 from fiscal year 2012.

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 2013 by \$389,436 or 5.2%. 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.

**Table 3. Budget to Actual**

	Actual	Original and Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 13,747,805	\$ 15,082,855	\$ (1,335,050)
Budgetary basis expenses	13,504,339	13,944,586	440,247
<b>Excess of revenues over expenses</b>	<b>\$ 243,466</b>	<b>\$ 1,138,269</b>	<b>\$ (894,803)</b>

Actual results compare unfavorably to budgeted amounts for the Hospital due to actual revenues being \$1,335,050 less than budgeted while actual expenses were \$440,247 less than budgeted. This results in a negative variance of \$894,803 with net income being \$243,466 as compared to budgeted net income of \$1,138,269, as shown in Table 3.

**Sierra Vista Hospital  
Management's Discussion and Analysis (Continued)  
June 30, 2013 and 2012**

**Capital Asset and Debt Administration**

***Capital Assets***

At the end of 2013, the Hospital had \$4,558,188 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the basic financial statements. In 2013, the Hospital purchased new assets costing \$1,939,565. 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. The Hospital issued no new debt in 2013 or 2012. 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, are 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 9<sup>th</sup> Street, Truth or Consequences, New Mexico 87901.

**Sierra Vista Hospital**  
**Balance Sheets**  
**June 30, 2013 and 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,099,370	\$ 5,524,717
Investment in certificates of deposit	2,132,129	121,083
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$990,000 and \$1,312,000, respectively	978,278	953,361
Sole community provider receivable	1,650,232	985,345
Electronic health records system incentive	-	226,000
Grants receivable	11,500	120,546
Donations receivable	40,000	-
Taxes receivable	56,260	126,939
Other receivables	33,226	-
Estimated third-party payor settlements receivable	1,034,258	501,270
Inventories	177,108	150,644
Prepaid expenses	387,503	44,526
Total current assets	<b>8,599,864</b>	8,754,431
<i>Capital assets, net</i>	<b>4,558,188</b>	3,393,200
<b>Total assets</b>	<b>\$ 13,158,052</b>	\$ 12,147,631
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current liabilities</i>		
Accounts payable	364,707	262,284
Sole community provider payable	661,026	-
Accrued compensation and related liabilities	590,386	586,880
Total liabilities	<b>1,616,119</b>	849,164
<i>Net position</i>		
Net investment in capital assets	4,558,188	3,393,200
Unrestricted	6,983,745	7,905,267
Total net position	<b>11,541,933</b>	11,298,467
<b>Total liabilities and net position</b>	<b>\$ 13,158,052</b>	\$ 12,147,631

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

**Sierra Vista Hospital**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$2,553,688 and \$3,037,154, respectively	\$ 9,934,971	\$ 10,331,404
Sole community provider	1,542,908	3,225,339
Electronic health records system incentive	16,910	828,699
Grants	214,287	317,082
Other	118,523	112,195
<b>Total operating revenues</b>	<b>11,827,599</b>	<b>14,814,719</b>
<i>Operating expenses</i>		
Salaries and wages	6,799,593	6,507,758
Employee benefits	1,145,831	1,048,230
Professional fees	2,240,193	2,267,822
Supplies	1,050,506	1,153,390
Utilities	290,484	256,733
Repairs and maintenance	534,200	540,209
Leases and rentals	37,622	35,239
Depreciation	774,577	694,227
Insurance	280,596	270,293
Other	350,737	253,689
<b>Total operating expenses</b>	<b>13,504,339</b>	<b>13,027,590</b>
<b>Operating income (loss)</b>	<b>(1,676,740)</b>	<b>1,787,129</b>
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	405,161	460,529
Mill levy revenue	571,935	549,484
Sierra County 412 Fund revenue	-	334,395
Contributions	37,267	5,121
Interest income	28,567	17,465
Interest expense	-	(8,224)
Gain on disposal of capital assets	-	14,488
<b>Total nonoperating revenues (expenses), net</b>	<b>1,042,930</b>	<b>1,373,258</b>
Excess of revenues over expenses (expenses over revenues)	(633,810)	3,160,387
State appropriations for capital	869,562	947,107
Transfer to Sierra County for bond debt service	(102,220)	(448,850)
Capital grants and contributions	109,934	77,828
Change in net position	243,466	3,736,472
Net position, beginning of year	11,298,467	7,561,995
<b>Net position, end of year</b>	<b>\$ 11,541,933</b>	<b>\$ 11,298,467</b>

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

**Sierra Vista Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 10,916,113	\$ 13,656,216
Receipts from grants	323,333	196,536
Receipts from other revenue	118,523	112,195
Electronic health records system incentive	242,910	602,699
Payments to employees	(7,975,144)	(7,481,754)
Payments to suppliers and contractors	(5,051,356)	(4,773,225)
Net cash provided by (used in) operating activities	(1,425,621)	2,312,667
<i>Cash flows from noncapital financing activities</i>		
Contributions	37,267	5,121
Receipts from gross receipts tax	470,858	395,760
Receipts from mill levies	576,917	548,334
Receipts from Sierra County 412 Fund	-	334,395
Net cash provided by noncapital financing activities	1,085,042	1,283,610
<i>Cash flows from capital and related financing activities</i>		
Payment of capital lease obligations	-	(151,592)
Interest paid	-	(8,224)
Capital grants and contributions	69,934	77,828
Purchase of capital assets	(1,939,565)	(1,791,824)
State appropriations	869,562	947,107
Transfer to Sierra County for bond	(102,220)	(448,850)
Net cash used in capital and related financing activities	(1,102,289)	(1,375,555)
<i>Cash flows from investing activities</i>		
Purchase of investments	(2,011,046)	(726)
Interest received	28,567	17,465
Net cash provided by (used in) investing activities	(1,982,479)	16,739
Net increase (decrease) in cash and cash equivalents	(3,425,347)	2,237,461
Cash and cash equivalents, beginning of year	5,524,717	3,287,256
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,099,370</b>	<b>\$ 5,524,717</b>

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



**Sierra Vista Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided By (Used in) Operating Activities</b>		
Operating income (loss)	\$ (1,676,740)	\$ 1,787,129
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation	774,577	694,227
Provision for bad debts	2,553,688	3,037,154
Decrease (increase) in assets and liabilities:		
Receivables:		
Patient accounts	(2,578,605)	(2,898,102)
Sole community provider	(664,887)	(267,440)
Electronic health records system incentive	226,000	(226,000)
Grants	109,046	(120,546)
Other	(33,226)	-
Estimated third-party payor settlements	(532,988)	227,861
Inventories	(26,464)	72,456
Prepaid expenses	(342,977)	(13,268)
Increase (decrease) in liabilities:		
Accounts payable	102,423	(55,038)
Sole community provider payable	661,026	-
Accrued compensation and related liabilities	3,506	74,234
Total adjustments	251,119	525,538
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,425,621)</b>	<b>\$ 2,312,667</b>

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

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended June 30, 2013 and 2012**

**1. Description of Reporting Entity, Related Organizations, and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Sierra Vista Hospital (the Hospital) operates a 15-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 2013 and 2012. The Hospital provided support to the Organization of approximately \$77,000 and \$29,000 during fiscal years 2013 and 2012, 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, 2013 and 2012**

**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 \$69,934 and \$77,828 to the Hospital during fiscal years 2013 and 2012, 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's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – Cash and cash equivalents include 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.

*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.

*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.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

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

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

*Net position* – Net position of the Hospital is classified in four components. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. *Unrestricted net position* is remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted*. The Hospital did not have a restricted net position at June 30, 2013 and 2012.

*Operating revenues and expenses* – The Hospital's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, 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.

*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.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

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

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

**Recent accounting pronouncements** – In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement, which is effective for financial statements for periods beginning after June 15, 2012, provides, among other things, additional guidance to primary governments that are business-type activities reporting financial information in a single column. New guidance, which includes reporting a blended component unit, allows users to better distinguish between the primary government and its component unit by requiring condensed combining information in the notes to the financial statements. The Hospital adopted GASB Statement No. 61 during 2013, with no effect on the Hospital's financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. The Hospital adopted GASB Statement No. 62 during 2012, and its provisions were applied retroactively for all periods presented. Adoption of GASB Statement No. 62 did not materially affect the Hospital financial statements.

In June 2012, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net position applicable to future periods) and deferred inflows of resources (acquisition of net position applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted, and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Hospital adopted the provisions of the statement in 2013 on a retroactive basis by reclassifying certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Hospital's financial statements.

In March 2011, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65, which is effective for financial statements for periods beginning after December 15, 2012, amends or supersedes accounting and financial reporting guidance for certain items previously reported as assets or liabilities. The Hospital will adopt GASB Statement No. 65 in 2014 by retroactively restating financial statements for all periods presented. Debt issuance costs will need to be expensed as incurred when this standard is implemented.

**Subsequent events** – Subsequent events have been reviewed through October 11, 2013, 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, 2013 and 2012**

**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.

At June 30 2013 and 2012, the Hospital had \$1,907,420 and \$6,127,220, respectively, held at the Bank of the Southwest. In 2013, \$1,032,419 of the Hospital's deposited funds held at the Bank of the Southwest was exposed to custodial credit risk, because there was not sufficient collateral held in the name of the financial institution and it was not fully insured by the FDIC. In 2012, \$2,731,137 was exposed to custodial credit risk.

During the year ended June 30, 2013, the Hospital opened a money market account with Citizens Bank and certificates of deposit with First Savings Bank, which had balances of \$501,245 and \$2,010,210, respectively, on June 30, 2013. None of the deposits held at either bank were exposed to custodial credit risk because the collateral was held in the name of the respective 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.

The Hospital's investments at June 30, 2013 and 2012, included:

	2013					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Certificates of deposit	\$ 2,132,129	\$ -	\$ 2,132,129	\$ -	\$ -	Not applicable
<b>Total investments</b>	<b>\$ 2,132,129</b>	<b>\$ -</b>	<b>\$ 2,132,129</b>	<b>\$ -</b>	<b>\$ -</b>	

  

	2012					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Certificates of deposit	\$ 121,083	\$ -	\$ 121,083	\$ -	\$ -	Not applicable
<b>Total investments</b>	<b>\$ 121,083</b>	<b>\$ -</b>	<b>\$ 121,083</b>	<b>\$ -</b>	<b>\$ -</b>	

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**3. Net Patient Service Revenue:**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients and the deductible and coinsurance portion of payments due from beneficiaries in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>Years Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 6,562,167	\$ 6,700,681
Medicaid	2,108,526	1,801,272
Other third-party payors	2,273,822	2,700,531
Patients	2,048,647	2,733,902
	<b>12,993,162</b>	13,936,386
Less:		
Charity care	504,503	567,828
Provision for bad debts	2,553,688	3,037,154
<b>Net patient service revenue</b>	<b>\$ 9,934,971</b>	<b>\$ 10,331,404</b>

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

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

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

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

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

Behavioral services rendered to Medicaid program beneficiaries are paid using a cost reimbursement methodology. The Hospital is 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 Medicaid fiscal intermediary.

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

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 \$50,000 and \$39,000 in 2013 and 2012, 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 30, 2013 and 2012, were approximately \$373,000 and \$374,000, respectively.

**4. Patient Accounts Receivable:**

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



**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**4. Patient Accounts Receivable (continued):**

The Hospital's allowance for doubtful accounts for self-pay patients has decreased from the prior year due to the Hospital's collection experience improving in fiscal year 2013. The Hospital's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2012. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Hospital at June 30, 2013 and 2012, consisted of these amounts:

	<b>2013</b>	<b>2012</b>
Receivable from patients and their insurance carriers	\$ 1,357,342	\$ 1,704,185
Receivable from Medicare	431,967	420,325
Receivable from Medicaid	179,333	140,626
Total patient accounts receivable	<b>1,968,642</b>	2,265,136
Less allowance for uncollectible accounts	<b>990,364</b>	1,311,775
<b>Net patient accounts receivable</b>	<b>\$ 978,278</b>	<b>\$ 953,361</b>

**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 improvements	20 to 40 years
Equipment	5 to 10 years

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

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

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2013, were as follows:

	2013				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 487,881	\$ 825,062	\$ -	\$ (281,291)	\$ 1,031,652
Land	85,000	325,704	-	-	410,704
Total capital assets not being depreciated	572,881	1,150,766	-	(281,291)	1,442,356
<i>Capital assets being depreciated</i>					
Buildings and improvements	2,238,938	218,743	-	179,200	2,636,881
Equipment	4,314,971	570,056	-	102,091	4,987,118
Total capital assets being depreciated	6,553,909	788,799	-	281,291	7,623,999
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(1,010,145)	(170,574)	-	-	(1,180,719)
Equipment	(2,723,445)	(604,003)	-	-	(3,327,448)
Total accumulated depreciation	(3,733,590)	(774,577)	-	-	(4,508,167)
Total capital assets being depreciated, net	2,820,319	14,222	-	281,291	3,115,832
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 3,393,200</b>	<b>\$ 1,164,988</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,558,188</b>

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**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
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 2,281,115</b>	<b>\$ 1,115,150</b>	<b>\$ (3,065)</b>	<b>\$ -</b>	<b>\$ 3,393,200</b>

Construction in progress at June 30, 2013, consisted of the following projects:

- Emergency room expansion – the estimated cost to complete the project is \$3,100,000 and is expected to be completed in fiscal year 2015. The project is primarily being funded by a bond held by the County of Sierra.
- Central plant remodel – the estimated cost to complete the project is \$1,400,000 and is expected to be completed in fiscal year 2014. The project is being funded by the Hospital.
- Operating room construction – the estimated cost to complete the project is \$400,000 and is expected to be completed in fiscal year 2014. The project is partially being funded by a bond held by the County of Sierra and the rest of the funding will come from the Hospital.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**6. Noncurrent Liabilities:**

A schedule of changes in the Hospital's noncurrent liabilities for 2013 and 2012 follows:

	2013				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	255,396	554,904	(565,256)	245,044	245,044
<b>Total noncurrent liabilities</b>	<b>\$ 255,396</b>	<b>\$ 554,904</b>	<b>\$ (565,256)</b>	<b>\$ 245,044</b>	<b>\$ 245,044</b>

  

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

**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 \$572,000 and \$549,000 in 2013 and 2012, 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 \$405,000 and \$461,000 in 2013 and 2012, 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, 2013 and 2012**

**8. Contingencies (continued):**

***Litigation*** – The Hospital is involved in litigation and regulatory investigations arising in the ordinary course of business. One case has a high probability of an unfavorable outcome for the Hospital, and a \$50,000 legal expense has been accrued at year-end. While the ultimate outcome for the other matters is not presently determinable, it is the opinion of management that the resolution of the other 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 \$50,000 and \$40,000 during the years ended June 30, 2013 and 2012, respectively. The Hospital will match up to dollar per dollar the first 3% of each employee's contribution. The Hospital's contributions to the Plan were approximately \$29,000 and \$27,000 for the years ended June 30, 2013 and 2012, respectively.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**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, 2013 and 2012, was as follows:

	<b>2013</b>	<b>2012</b>
Medicare	<b>35 %</b>	29 %
Medicaid	<b>10</b>	9
Patients	<b>41</b>	46
Commercial and other	<b>14</b>	16
	<b>100 %</b>	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.

**11. Sierra County Bonds Payable:**

On November 16, 2012, a purchase agreement was approved providing funding the Hospital’s emergency room remodeling project from the County for \$4,985,000. The purchase was funded through bond proceeds received from the New Mexico Financing Authority (NMFA).

The promissory note was an obligation of the County and not the Hospital. The transfer of the cash and Hospital facilities will be accounted for as an increase in the net position of the Hospital.

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 \$0 and \$334,000, respectively, for the years ended June 30, 2013 and 2012.

Prior to the County’s bond issuance the Hospital received \$51,000 in gross receipts tax revenue in fiscal year 2013.

The Hospital transferred approximately \$102,000, to the County to establish a debt service reserve for the bond on May 16, 2013.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**12. Related-party Transactions:**

The Hospital purchased dispatch services from the County of approximately \$25,000 in the fiscal years ended June 30, 2013 and 2012.

The Hospital reimbursed the County for approximately \$44,500 of expenses relating to the County's issuance of bonds for the Hospital construction projects.

The Hospital purchased electricity from the City of approximately \$181,000 and \$142,000 during the fiscal years ended June 30, 2013 and 2012, respectively.

The Hospital contracted with a board member for pharmacy services of approximately \$3,500 and \$5,000 during the fiscal years ended June 30, 2013 and 2012, respectively.

**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, 2013, the remaining balances of the appropriations are \$0.

The County transferred \$384,837 and \$947,107 of the appropriations to the Hospital during the fiscal year ended June 30, 2013 and 2012, respectively.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2013 and 2012**

**14. Electronic Health Records Incentive Payment:**

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended June 30, 2012 and 2013. 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. In the year ended, June 30, 2013, the Hospital recognized \$16,910 of revenue due to the difference between the originally estimated EHR incentive payments and actual incentive payments. A Medicare EHR incentive payment of \$612,199 was recognized in the year ended June 30, 2012.

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 stage one 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 Medicare cost report.

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. A subsequent payment will be recognized in 2014 and 2015.

**15. Subsequent Events:**

The Hospital's mill tax levy expired for the fiscal year 2014 and beyond. There is a special election schedule to be held on October 29, 2013, to reinstitute the Hospital's mill tax levy for the same rate. The lack of mill tax levy revenue would be significant to the Hospital's operations.

The Sole Community Provider program has been restructured to provide New Mexico hospitals less favorable rates than in years past. As the program continues to undergo changes the Hospital will receive less favorable rates on return from their matches than in years past.



**SUPPLEMENTAL INFORMATION**

**Sierra Vista Hospital  
Schedule of Pledged Collateral  
June 30, 2013**

	<b>Bank of the Southwest</b>	<b>Citizens Bank</b>	<b>First Savings Bank</b>
Deposits at June 30, 2013	\$ 1,907,419	\$ 501,245	\$ 2,132,129
Less: FDIC coverage	(250,000)	(250,000)	(250,000)
Uninsured public funds	1,657,419	251,245	1,882,129
Pledged collateral held by the pledging bank's trust			
department or agent but not in the Hospital's name	625,000	555,060	3,025,600
Total uninsured and uncollateralized public funds	\$ 1,032,419	\$ (303,815)	\$ (1,143,471)
50% pledged collateral requirement per statute	\$ 828,710	\$ 125,623	\$ 941,065
Total pledged collateral	625,000	555,060	3,025,600
<b>Pledged collateral under (over) the requirement</b>	<b>\$ 203,710</b>	<b>\$ (429,437)</b>	<b>\$ (2,084,536)</b>

Pledged collateral at June 30, 2013, consists of the following:

<b>Security</b>	<b>Fair Value</b>		
	<b>Bank of the Southwest</b>	<b>Citizens Bank</b>	<b>First Savings Bank</b>
FHLB letter of credit, matures September 20, 2013	\$ 75,000		
FHLB letter of credit, matures September 30, 2013	100,000		
FHLB letter of credit, matures June 4, 2014	225,000		
FHLB letter of credit, matures June 16, 2014	225,000		
FHLB letter of credit, matures March 11, 2016		\$ 555,060	
GNR 2010-171 PA, CUSIP #38377NRJ5, matures March 16, 2038			\$ 1,437,105
GNR 2011-21 QC, CUSIP #38377TVG3, matures May 20, 2038			1,588,495
<b>Total pledged securities</b>	<b>\$ 625,000</b>	<b>\$ 555,060</b>	<b>\$ 3,025,600</b>

The custodians of the pledged securities are the Bank of the Southwest in Roswell, New Mexico, Citizens Bank of Las Cruces, Las Cruces, New Mexico, and First Saving Bank – Beresford, South Dakota.

**Sierra Vista Hospital**  
**Schedule of Individual Deposit and Investment Accounts**  
**June 30, 2013**

<b>Depository</b>	<b>Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Other Reconciling Items</b>	<b>Book Balance</b>
<b>Deposit Accounts</b>							
Bank of the Southwest	Operating account	Interest bearing checking	\$ 1,832,101	\$ 134	\$ 313,492	\$ (236)	\$ 1,518,507
Bank of the Southwest	SVH - savings	Savings	16,872	-	-	-	16,872
Bank of the Southwest	Payroll account	Interest bearing checking	46,265	-	-	-	46,265
Bank of the Southwest	Empe adv fund - chkg	Interest bearing checking	4,524	-	-	-	4,524
Bank of the Southwest	Bobbie West scholars	Savings	7,658	-	-	-	7,658
Citizens Bank	MM - Citizens bank	Money market	501,245	-	-	-	501,245
<b>Cash on hand</b>							
	Petty cash	Petty cash	925	-	-	-	925
	Manual transfer	Payroll adjustments	-	-	-	3,374	3,374
<b>Certificates of Deposit</b>							
First Savings Bank	Investment - CD	CD's	121,919	-	-	-	121,919
First Savings Bank	CD - Investment	CD's	2,010,210	-	-	-	2,010,210
<b>Total deposits and investments</b>			<b>\$ 4,541,719</b>	<b>\$ 134</b>	<b>\$ 313,492</b>	<b>\$ 3,138</b>	<b>\$ 4,231,499</b>

*See accompanying independent auditors' report.*

**Sierra Vista Hospital**  
**Schedule of Revenues and Expenses – Budget to Actual**  
**Year Ended June 30, 2013**

	Actual	Original Approved Budget	Final Approved Budget	Variance with Final Budget - Over (Under)
<i>Revenues</i>				
Net patient service revenue	\$ 9,934,971	\$ 10,183,236	\$ 10,301,298	\$ (366,327)
Other	118,523	109,135	233,410	(114,887)
Nonoperating revenues (expenses) and other, net	3,694,311	4,790,485	4,548,147	(853,836)
<b>Total revenues</b>	<b>13,747,805</b>	<b>15,082,856</b>	<b>15,082,855</b>	<b>(1,335,050)</b>
<i>Expenses</i>				
Salaries, wages, and benefits	7,945,424	8,185,035	8,185,035	(239,611)
Other	5,558,915	4,685,025	5,759,551	(200,636)
<b>Total expenses</b>	<b>13,504,339</b>	<b>12,870,060</b>	<b>13,944,586</b>	<b>(440,247)</b>
<b>Change in net position</b>	<b>\$ 243,466</b>	<b>\$ 2,212,796</b>	<b>\$ 1,138,269</b>	<b>\$ (894,803)</b>

*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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sierra Vista Hospital (the Hospital), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated October 11, 2013. We also audited the budgetary comparison of the Hospital for the year ended June 30, 2013, presented as supplemental information as listed in the table of contents.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, 2013-02.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items, 2013-01 and 2013-03.

## **Hospital's Response to Findings**

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
October 11, 2013

**Sierra Vista Hospital  
Schedule of Findings and Responses  
Year Ended June 30, 2013**

**2013-01 Mileage Reimbursement Rate**

<i>Condition</i>	<p>During our review of mileage reimbursement rates during transaction testing we noted the following:</p> <p>We noted that nine of the thirteen employee reimbursements for mileage that we tested were reimbursed using incorrect mileage rates. These errors were the result of the incorrect Federal Year's mileage rate being used for the mileage reimbursement calculation.</p>
<i>Criteria</i>	<p>[X] Compliance Finding    [ ] Significant Deficiency    [ ] Material Weakness</p> <p>All mileage reimbursement rates should use the prior calendar year IRS reimbursement rate and should be applied consistently.</p>
<i>Context</i>	<p>This finding appears to be a <i>systemic</i> problem.</p>
<i>Cause</i>	<p>There are no policies and procedures regarding the preparation and review of mileage rates.</p>
<i>Effect</i>	<p>There is an increased risk that of incorrect payments to employees.</p>
<i>Recommendation</i>	<p>Policies and procedures should be created that define what the mileage reimbursement rate is for the year and it should be reviewed before reimbursement is paid to employees.</p>
<i>Management's Response</i>	<p>Sierra Vista Hospital has revised its mileage reimbursement policy to reflect the statutory rate in accordance with the State of New Mexico's governing regulation for local public bodies.</p>

**Sierra Vista Hospital  
 Schedule of Findings and Responses (Continued)  
 Year Ended June 30, 2013**

**2013-02 Legal Expense Accrual**

<i>Condition</i>	The Hospital had not accrued a \$50,000 deductible liability on a malpractice claim whose payment was assessed as likely at year-end.
<i>Criteria</i>	[ ] Compliance Finding    [X] Significant Deficiency    [ ] Material Weakness  Expenses likely to be incurred resulting from a current year event should be accrued in that year, even if the expense needs to be estimated if the final amount is unknown.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Cause</i>	There are no policies and procedures regarding review of legal expenses at year-end.
<i>Effect</i>	It increases the likelihood that liabilities and expenses are understated.
<i>Recommendation</i>	Hospital management should review all outstanding claims and litigation at or near year-end to determine the likelihood the Hospital will have to pay a settlement.
<i>Management's Response</i>	Sierra Vista Hospital has accrued the \$50,000 policy deductible as of June 30, 2013, to accurately reflect a potential legal expense for a malpractice claim.  Sierra Vista Hospital currently performs monthly reviews on all outstanding claims and litigation and will determine for future period the likelihood of a settlement payment.



**Sierra Vista Hospital  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2013**

**2013-03 Collateral Minimum Requirement**

<i>Condition</i>	The Hospital did not meet the State of New Mexico's collateralization requirement with deposits held at the Bank of the Southwest at year-end. The Hospital was under collateralized at year end by \$203,710.
<i>Criteria</i>	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness Fifty percent of deposits less amount insured by the FDIC need to be collateralized.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Cause</i>	There are no policies and procedures regarding reviewing the collateralization requirement of the State of New Mexico.
<i>Effect</i>	It exposes the Hospital to custodial credit risk, in which the Hospital would lose its assets not protected by the FDIC or that were not collateralized
<i>Recommendation</i>	Hospital management should develop policies to ensure that Hospital deposits are reviewed frequently to ensure that all deposits are properly collateralized in accordance with New Mexico State law.
<i>Management's Response</i>	Securities were pledged in year-end deposits held at Bank of the Southwest on 7/2/13.  Sierra Vista Hospital has confirmed with Bank of the Southwest that total daily deposits will be monitored by the bank to ensure securities are pledged appropriately.  Sierra Vista Hospital has implemented a process whereby deposits that are greater than typical total daily deposits, or amounts of \$1,000,000 and greater, will be verified immediately with the financial institution to ensure proper collateralization.

**Sierra Vista Hospital  
Summary Schedule of Prior Year Findings  
Year Ended June 30, 2013**

**Sierra Vista Hospital:**

The schedule of audit findings for the year ended June 30, 2012, reported no audit findings, nor were there any unresolved findings from periods ending June 30, 2011, and prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2013.

**Sierra Vista Hospital  
Exit Conference  
Year Ended June 30, 2013**

An exit conference was held October 11, 2013, with the Finance Committee to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Warren Cross	Governing Board, Chair
Denise Addie-Villagomez	Governing Board
Lauraleigh deWyer	Administrator
Bret Goebel	Contracted Chief Financial Officer
Chun-Ming Huang	ACFO/Controller
Luke Zarecor	Dingus, Zarecor & Associates PLLC
Adam Jones	Dingus, Zarecor & Associates PLLC

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