

Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2014 and 2013



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, 2014**

County of Sierra, New Mexico, Representatives

Terry Egan, Chairperson
Denise Addie-Villagomez
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

Michael Zimmerman, Sierra Vista Hospital, Administrator
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

Michael Zimmerman, 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 Sierra Vista Hospital (the Hospital), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the schedule of revenue and expenses – budget to actual of the Hospital for the year ended June 30, 2014, 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 Hospital as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows 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 schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2014, 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 schedule of revenue and expenses – budget to actual. 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 8, 2014, 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 for the year ended June 30, 2014. We issued a similar report for the year ended June 30, 2013, dated October 11, 2013, which has not been included with the 2014 financial and compliance report. 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 8, 2014

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2014 and 2013**

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, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Financial Highlights

- The Hospital's net position decreased in 2014 by \$449,798 or 3.9% and increased in 2013 by \$243,466 or 2.2%.
- The Hospital in 2014 reported an increase in operating income of \$666,017 from the income reported in 2013. The operating income in 2013 decreased by \$3,463,869 over the income reported in 2012.
- Nonoperating net revenues decreased by \$482,005 or 46.2% in 2014 compared to 2013. Nonoperating net revenues decreased by \$330,228 or 24.1% in 2013 compared to 2012.

Using This Annual Report

The Hospital's financial statements consist of three statements — a Statement of Net Position; 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 Statement of Net Position 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 Statement of Net Position 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 Statement of Net Position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. The Statement of Revenues, Expenses, and Changes in Position tells the reader if the Hospital had a profitable year or operated at a loss. 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, 2014 and 2013**

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position, on page 10. The Hospital's net position decreased by \$449,798 or 3.9% in 2014 and increased by \$243,466 or 2.2% in 2013, as shown in Table 1.

A significant component of the change in the Hospital's assets is the decrease in current assets. In 2014, current assets decreased by \$1,863,487. The decrease is due to recognizing \$2,000,000 of reserves for the Emergency Room Expansion and Power Plant project discussed more fully below. Total assets for 2014 decreased \$450,518 from 2013. Total assets for 2014 consist primarily of cash and investments, net patient accounts receivable, and net capital assets. Total liabilities have decreased by \$720 over the last year due mainly to a decrease in payables.

Table 1. Net Position

	2014	2013	2012
<i>Assets</i>			
Current assets	\$ 6,671,377	\$ 8,534,864	\$ 8,754,431
Capital assets, net	3,970,506	4,558,188	3,393,200
Other noncurrent assets	2,065,651	65,000	-
Total assets	\$ 12,707,534	\$ 13,158,052	\$ 12,147,631
<i>Liabilities</i>			
Current liabilities	\$ 1,615,399	\$ 1,616,119	\$ 849,164
<i>Net position</i>			
Net investment in capital assets	3,970,506	4,558,188	3,393,200
Temporarily restricted	65,651	65,000	-
Unrestricted	7,055,978	6,918,745	7,905,267
Total net position	11,092,135	11,541,933	11,298,467
Total liabilities and net position	\$ 12,707,534	\$ 13,158,052	\$ 12,147,631

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013**

Operating Results and Changes in the Hospital's Net Position

In 2014, the Hospital's operating income increased by \$666,017. This is the result of total operating revenues increasing \$2,227,312, and total operating expenses increasing by \$1,561,295 in 2014 as compared to 2013. The increase in revenue is in part due to the surgery service that began in October 2013. These results were achieved including a reduction of \$455,234 in gross receipts and mill levy tax revenues. In comparison to the results for 2013, these large changes explain the result for 2014: Increase in net patient service revenue of \$1,788,261, decrease in nonoperating income of \$482,005, and a decrease in State appropriations of \$869,562. The change in results from 2013 to 2014 is a decrease of \$693,264 from a profit of \$243,466 for 2013 to a loss of \$449,798 for 2014.

Table 2. Operating Results and Changes in Net Position

	2014	2013	2012
<i>Operating revenues</i>			
Net patient service revenue	\$ 11,550,039	\$ 9,761,778	\$ 10,331,404
Sole community provider	2,271,780	1,816,704	3,225,339
EHR incentive revenue	74,542	190,103	828,699
Grants and other operating revenue	432,346	332,810	429,277
Total operating revenues	14,328,707	12,101,395	14,814,719
<i>Operating expenses</i>			
Salaries, wages, and benefits	8,783,949	7,945,424	7,555,988
Supplies, insurance, and other	5,807,976	5,058,134	4,777,375
Depreciation	747,505	774,577	694,227
Total operating expenses	15,339,430	13,778,135	13,027,590
<i>Operating income (loss)</i>	(1,010,723)	(1,676,740)	1,787,129
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	521,862	977,096	1,010,013
Sierra County 412 Fund revenue	-	-	334,395
Contributions	3,802	37,267	5,121
Interest expense	-	-	(8,224)
Interest income	35,261	28,567	17,465
Gain (loss) on disposal of capital asset	-	-	14,488
Total nonoperating revenues (expenses), net	560,925	1,042,930	1,373,258
Excess of revenues over expenses (expenses over revenues)	(449,798)	(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	(449,798)	243,466	3,736,472
Net position, beginning of year	11,541,933	11,298,467	7,561,995
Net position, end of year	\$ 11,092,135	\$ 11,541,933	\$ 11,298,467

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013**

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

During the year operating revenues increased \$2,227,312 or 18.4%. Operating expenses increased in the amount of \$1,561,295 or 11.3%. The operating revenues for the Hospital are separated into four categories and each one reduced in fiscal year 2014 as compared to 2013.

- Net patient service revenue increased \$1,788,261 due to increased patient volumes and the addition of a surgery service.
- Sole community provider and safety net care pool revenue increased over 25% by \$455,076 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 2014 as it decreased by approximately \$116,000 from fiscal year 2013.
- Grants and other operating revenues for fiscal year 2014 increased by approximately \$100,000 from fiscal year 2013.

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 2014 by \$838,525 or 10.6%. This increase is based on increases in the full-time equivalents needed due to the 18.4% increase in operating revenues. 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	\$ 14,889,632	\$ 13,820,863	\$ 1,068,769
Budgetary basis expenses	15,339,430	15,436,626	(97,196)
Excess of expenses over revenues	\$ (449,798)	\$ (1,615,763)	\$ 1,165,965

Actual results compare favorably to budgeted amounts for the Hospital due to actual revenues being \$1,068,769 more than budgeted while actual expenses were \$97,196 less than budgeted. This results in a positive variance of \$1,165,965 with excess of expenses over revenues being \$449,798 as compared to budgeted excess of expenses over revenues of \$1,615,763, as shown in Table 3.

**Sierra Vista Hospital
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013**

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Hospital had \$3,970,506 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the basic financial statements. In 2014, the Hospital purchased new assets costing \$159,823. The majority of the additions are related to expenditures for equipment, site improvement, and construction-in-progress for the emergency room renovation. During 2014 the Hospital broke ground on a significant expansion to the emergency department (the E.R.), renovation of the power plant and improvements in the operating room. The project is more fully discussed in Note 5 to the basic financial statements.

Debt

At year end, the Hospital had no capital lease obligations outstanding. The Hospital issued no new debt in 2014 or 2013. 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 to increase.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administration department at 800 East 9th Street, Truth or Consequences, New Mexico 87901.

Sierra Vista Hospital
Statements of Net Position
June 30, 2014 and 2013

ASSETS	2014	2013
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,417,703	\$ 2,034,370
Investment in certificates of deposit	2,152,949	2,132,129
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$1,247,000 and \$990,000, respectively	1,683,953	978,278
Safety net care pool and sole community provider receivable	682,746	1,650,232
Grants receivable	11,500	11,500
Donations receivable	-	40,000
Taxes receivable	64,337	56,260
Other receivables	-	33,226
Estimated third-party payor settlements receivable	-	1,034,258
Inventories	318,998	177,108
Prepaid expenses	339,191	387,503
Total current assets	6,671,377	8,534,864
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital improvements	2,000,000	-
Cash and cash equivalents, restricted as to use for capital improvements	65,651	65,000
Capital assets, net	3,970,506	4,558,188
	6,036,157	4,623,188
Total assets	\$ 12,707,534	\$ 13,158,052
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Accounts payable	765,085	364,707
Sole community provider payable	-	661,026
Estimated third-party payor settlements payable	151,025	-
Accrued compensation and related liabilities	699,289	590,386
Total liabilities	1,615,399	1,616,119
<i>Net position</i>		
Net investment in capital assets	3,970,506	4,558,188
Restricted	65,651	65,000
Unrestricted	7,055,978	6,918,745
Total net position	11,092,135	11,541,933
Total liabilities and net position	\$ 12,707,534	\$ 13,158,052

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, 2014 and 2013

	2014	2013
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$3,143,313 and \$2,553,688, respectively	\$ 11,550,039	\$ 9,761,778
Safety net care pool and sole community provider	2,271,780	1,816,704
Electronic health records system incentive	74,542	190,103
Grants	386,509	214,287
Other	45,837	118,523
Total operating revenues	14,328,707	12,101,395
<i>Operating expenses</i>		
Salaries and wages	7,440,613	6,799,593
Employee benefits	1,343,336	1,145,831
Professional fees	2,563,001	2,239,679
Supplies	1,402,862	1,050,506
Sole community provider match	398,279	273,796
Utilities	258,613	290,484
Repairs and maintenance	485,867	534,200
Leases and rentals	44,900	37,622
Depreciation	747,505	774,577
Insurance	354,144	280,596
Other	300,310	351,251
Total operating expenses	15,339,430	13,778,135
Operating loss	(1,010,723)	(1,676,740)
<i>Nonoperating revenues</i>		
Gross receipts tax revenue	467,956	405,161
Mill levy revenue	53,906	571,935
Contributions	3,802	37,267
Interest income	35,261	28,567
Total nonoperating revenues	560,925	1,042,930
Excess of expenses over revenues	(449,798)	(633,810)
State appropriations for capital	-	869,562
Transfer to Sierra County for bond debt service	-	(102,220)
Capital grants and contributions	-	109,934
Change in net position	(449,798)	243,466
Net position, beginning of year	11,541,933	11,298,467
Net position, end of year	\$ 11,092,135	\$ 11,541,933

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

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 14,607,887	\$ 11,016,716
Receipts from grants	386,509	323,333
Receipts from other revenue	45,837	118,523
Electronic health records system incentive	74,542	416,103
Payments to employees	(8,641,820)	(7,975,144)
Payments to suppliers and contractors	(5,501,176)	(5,325,152)
Net cash provided by (used in) operating activities	971,779	(1,425,621)
<i>Cash flows from noncapital financing activities</i>		
Contributions	3,802	37,267
Receipts from gross receipts tax	451,119	470,858
Receipts from mill levies	62,666	576,917
Net cash provided by noncapital financing activities	517,587	1,085,042
<i>Cash flows from capital and related financing activities</i>		
Capital grants and contributions	40,000	69,934
Purchase of capital assets	(159,823)	(1,939,565)
State appropriations	-	869,562
Transfer to Sierra County for bond	-	(102,220)
Net cash used in capital and related financing activities	(119,823)	(1,102,289)
<i>Cash flows from investing activities</i>		
Purchase of investments	(20,820)	(2,011,046)
Interest received	35,261	28,567
Net cash provided by (used in) investing activities	14,441	(1,982,479)
Net increase (decrease) in cash and cash equivalents	1,383,984	(3,425,347)
Cash and cash equivalents, beginning of year	2,099,370	5,524,717
Cash and cash equivalents, end of year	\$ 3,483,354	\$ 2,099,370

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

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2014 and 2013

	2014	2013
<i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</i>		
Cash and cash equivalents in current assets	\$ 1,417,703	\$ 2,034,370
Cash and cash equivalents limited as to use for capital improvements	2,000,000	-
Cash and cash equivalents, restricted as to use for capital improvements	65,651	65,000
Total cash and cash equivalents	3,483,354	2,099,370
<i>Reconciliation of Operating Loss to Net Cash Provided By (Used in) Operating Activities</i>		
Operating loss	(1,010,723)	(1,676,740)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	747,505	774,577
Provision for bad debts	3,143,313	2,553,688
Decrease (increase) in assets and liabilities:		
Receivables:		
Patient accounts	(3,848,988)	(2,578,605)
Safety net care pool and sole community provider	967,486	(664,887)
Electronic health records system incentive	-	226,000
Grants	-	109,046
Other	33,226	(33,226)
Estimated third-party payor settlements	1,034,258	(532,988)
Inventories	(141,890)	(26,464)
Prepaid expenses	48,312	(342,977)
Increase (decrease) in liabilities:		
Accounts payable	400,378	102,423
Sole community provider	(661,026)	661,026
Accrued compensation and related liabilities	108,903	3,506
Estimated third-party payor settlements	151,025	-
Net cash provided by (used in) operating activities	\$ 971,779	\$ (1,425,621)

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

Sierra Vista Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

1. 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 2014 and 2013. The Hospital provided support to the Organization of approximately \$20,000 and \$77,000 during fiscal years 2014 and 2013, respectively. This support included the Organization's director and assistant salaries as well as office space costs.

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 \$0 and \$69,934 to the Hospital during fiscal years 2014 and 2013, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

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

c. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those estimates.

Enterprise fund accounting – The Hospital'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.

Net position – Net position of the Hospital is classified into three components. *Net investment in capital assets* 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 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. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

1. 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 and amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Sole community provider/Safety net care pool – The Hospital qualified 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.

The SCP subsidy program ended on December 31, 2013, and was replaced by the Safety Net Care Pool (SNCP) subsidy program on January 1, 2014, under Centennial Care (the New Mexico Medicaid managed care 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.

Assets limited and restricted as to use – Assets limited as to use include assets designated by the Hospital Governing Board for capital improvements. The Board retains control and may at its discretion subsequently use for other purposes. Assets restricted as to use include assets restricted by donors for capital improvements.

Reclassifications – Certain reclassifications have been made to the 2013 financial statements to conform with the classifications used in the 2014 financial statements with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through October 8, 2014, 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, 2014 and 2013

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 credit 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 2014 and 2013, the Hospital had \$3,161,218 and \$1,907,420, respectively, held at the Bank of the Southwest. At June 30, 2014, the deposit balances exceeded the FDIC coverage and collateral held in the name of the financial institution by \$1,436,218. At June 30, 2013, the deposit balances exceeded the FDIC coverage and collateral held in the name of the financial institution by \$1,032,419.

The Hospital also has a money market account with Citizens Bank and certificates of deposit with First Savings Bank, which had balances of \$502,404 and \$2,152,949, respectively, at June 30, 2014, and had balances of \$501,245 and \$2,010,210, respectively, at June 30, 2013. The FDIC coverage and pledged collateral held in the name of the financial institutions exceeded the deposit balances.

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 are as follows:

	2014					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Certificates of deposit	\$ 2,152,949	\$ -	\$ 2,152,949	\$ -	\$ -	Not applicable
Total investments	\$ 2,152,949	\$ -	\$ 2,152,949	\$ -	\$ -	

	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
Total investments	\$ 2,132,129	\$ -	\$ 2,132,129	\$ -	\$ -	

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible 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 uncollectible 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 uncollectible 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 uncollectible 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 uncollectible accounts.

The Hospital's allowance for uncollectible accounts for self-pay patients has increased from the prior year due to the Hospital's increase in aging of self-pay patient accounts receivable during the fiscal year. 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 2014 or 2013. The Hospital does not maintain a material allowance for uncollectible 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 consisted of these amounts:

	2014	2013
Receivable from patients and their insurance carriers	\$ 1,768,741	\$ 1,357,342
Receivable from Medicare	786,414	431,967
Receivable from Medicaid	375,634	179,333
Total patient accounts receivable	2,930,789	1,968,642
Less allowance for uncollectible accounts	1,246,836	990,364
Net patient accounts receivable	\$ 1,683,953	\$ 978,278

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

4. 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 \$54,000 and \$572,000 in 2014 and 2013, respectively. Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended. The mill levy expired during the fiscal year; however, a special election was held by the County and the mill levy's reinstatement was approved. The mill levy will begin again on January 1, 2015.

The Hospital also received a share of gross receipts taxes collected by the County, City, Elephant Butte, and the Village, approximating \$468,000 and \$405,000 in 2014 and 2013, respectively.

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	5 to 40 years
Equipment	4 to 10 years

Capital asset additions, retirements, transfers, and balances, were as follows:

	2014				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 1,031,652	\$ 27,017	\$ -	\$ (38,857)	\$ 1,019,812
Land	410,704	-	-	-	410,704
Total capital assets not being depreciated	1,442,356	27,017	-	(38,857)	1,430,516
<i>Capital assets being depreciated</i>					
Buildings and improvements	2,636,881	81,223	-	-	2,718,104
Equipment	4,987,118	51,583	-	38,857	5,077,558
Total capital assets being depreciated	7,623,999	132,806	-	38,857	7,795,662
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(1,180,719)	(175,875)	-	-	(1,356,594)
Equipment	(3,327,448)	(571,630)	-	-	(3,899,078)
Total accumulated depreciation	(4,508,167)	(747,505)	-	-	(5,255,672)
Total capital assets being depreciated, net	3,115,832	(614,699)	-	38,857	2,539,990
Capital assets, net of accumulated depreciation	\$ 4,558,188	\$ (587,682)	\$ -	\$ -	\$ 3,970,506

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

5. Capital Assets (continued):

	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
Capital assets, net of accumulated depreciation	\$ 3,393,200	\$ 1,164,988	\$ -	\$ -	\$ 4,558,188

Construction in progress at June 30, 2014, consists of costs relating to the emergency room expansion, operating room construction, and central plant remodel. The projects are estimated to cost approximately \$6,600,000 in total. The projects are primarily being financed by the County of Sierra, which has a \$4,600,000 fund relating to the projects. The County of Sierra has also used approximately \$198,000 of the Hospital's state appropriation funds relating to the projects. After these funds have been expended the Hospital's governing board has designated up to \$2,000,000 of the Hospital's funds to complete the projects. The entire projects are expected to be completed in June 2015. Afterward, it is expected that the County will transfer their respective portion of the capital assets to the Hospital.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

6. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities is as follows:

	2014				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	245,044	588,178	(545,494)	287,728	287,728
Total noncurrent liabilities	\$ 245,044	\$ 588,178	\$ (545,494)	\$ 287,728	\$ 287,728

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

7. Sierra County Bonds Payable:

On November 16, 2012, a purchase agreement was approved providing funding for the Hospital's building 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 promissory note is 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 Hospital to fund operations.

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, 2014 and 2013

8. 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 adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2014	2013
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,401,322	\$ 6,562,167
Medicaid	2,745,921	1,935,333
Other third-party payors	3,080,577	2,273,822
Patients	2,048,429	2,048,647
	15,276,249	12,819,969
Less:		
Charity care	582,897	504,503
Provision for bad debts	3,143,313	2,553,688
Net patient service revenue	\$ 11,550,039	\$ 9,761,778

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 according 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, 2014 and 2013

8. Net Patient Service Revenue (continued):

Behavioral services provided to Medicaid program beneficiaries are paid under a fee schedule methodology.

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 decreased approximately \$12,000 and increased approximately \$50,000 in 2014 and 2013, 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 uncollectible accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages, 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, 2014 and 2013, were approximately \$357,000 and \$375,000, respectively.

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 \$62,000 and \$50,000 during the years ended June 30, 2014 and 2013, 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 \$35,000 and \$29,000 for the years ended June 30, 2014 and 2013, respectively.

10. State of New Mexico Capital Appropriation:

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.

During fiscal year 2009, land was purchased by the County for approximately \$675,000 for a new hospital. The title to the land is recorded with the County as the owner.

During the fiscal year 2014, the County used \$197,999 of the Hospital's appropriation funds for the construction of the new hospital building.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

10. State of New Mexico Capital Appropriation (continued):

As of June 30, 2014, the remaining balance of the appropriations is \$178,683.

The County transferred \$0 and \$384,837 of the appropriations to the Hospital during the fiscal years ended June 30, 2014 and 2013, respectively.

11. Electronic Health Records Incentive Payment:

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended June 30, 2013 and 2014. 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. Medicare incentive payments of \$74,542 and \$16,903 were recognized in the years ended June 30, 2014 and 2013, respectively.

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 second payment was recognized during the year ended June 30, 2013. The subsequent third payment will be issued when meaningful use is demonstrated under Medicare. A Medicaid incentive payment of \$173,200 was recognized as revenue in 2013. The final payment is expected to be recognized in 2015.

12. 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, 2014 and 2013

12. Contingencies (continued):

Litigation – The Hospital is occasionally involved in litigation arising in the course of business. Management estimates that these matters will be resolved without a material adverse effect on the Hospital’s future 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.

13. Concentration of Risk:

Patient accounts 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 was as follows:

	2014	2013
Medicare	36 %	35 %
Medicaid	15	10
Patients	30	41
Commercial and other	19	14
	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.

14. Related-party Transactions:

The Hospital purchased dispatch services from the County of approximately \$25,000 in the fiscal years ended June 30, 2014 and 2013.

The Hospital purchased electricity from the City of approximately \$129,000 and \$181,000 during the fiscal years ended June 30, 2014 and 2013, respectively.

The Hospital contracted with a board member for pharmacy services of approximately \$2,000 and \$3,500 during the fiscal years ended June 30, 2014 and 2013, respectively.

Sierra Vista Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2014 and 2013

15. Subsequent Events:

In July 2014, the Hospital entered into a capital lease obligation with Siemens for a lab analyzer. Payments of \$2,149 are due monthly with the final payment due on May 31, 2019.

In July 2014, the Hospital entered into a capital lease obligation with Philips Medical Capital for a mobile c-arm. Payments of \$2,045 are due monthly with the final payment due on June 30, 2019.

SUPPLEMENTAL INFORMATION

**Sierra Vista Hospital
Schedule of Pledged Collateral
June 30, 2014**

	Bank of the Southwest	Citizens Bank	First Savings Bank
Deposits at June 30, 2014	\$ 3,161,218	\$ 502,404	\$ 2,152,949
Less: FDIC coverage	(250,000)	(250,000)	(250,000)
Uninsured public funds	2,911,218	252,404	1,902,949
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	1,475,000	537,419	3,022,630
Total uninsured and uncollateralized public funds	\$ 1,436,218	\$ (285,015)	\$ (1,119,681)
50% pledged collateral requirement per statute	\$ 1,455,609	\$ 126,202	\$ 951,475
Total pledged collateral	1,475,000	537,419	3,022,630
Pledged collateral under (over) the requirement	\$ (19,391)	\$ (411,217)	\$ (2,071,155)

Pledged collateral at June 30, 2014, consists of the following:

Security	Fair Value		
	Bank of the Southwest	Citizens Bank	First Savings Bank
FHLB letter of credit, matures September 22, 2014	\$ 575,000		
FHLB letter of credit, matures November 24, 2014	400,000		
FHLB letter of credit, matures June 17, 2015	500,000		
FHLB letter of credit, matures March 11, 2016		\$ 537,419	
MBS FHLMC Gold 15Yr, CUSIP #31306XQD8, matures September 1, 2022			\$ 60,075
MBS FHLMC Gold 15Yr, CUSIP #31307BJV3, matures March 1, 2023			125,738
MBS FHLMC Gold 15Yr, CUSIP #313078JW1, matures March 1, 2023			84,672
MBS FNMA 10Yr, CUSIP #31418BB54, matures April 1, 2024			201,396
MBS FNMA 15Yr, CUSIP #3138E4X71, matures February 1, 2027			85,738
MBS FNMA 15Yr, CUSIP #3138EKJA4, matures January 1, 2028			130,541
GNR 2010-171 PA, CUSIP #38377NRJ5, matures March 16, 2038			1,048,520
GNR 2011-21 QC, CUSIP #38377TVG3, matures May 20, 2038			1,285,950
Total pledged securities	\$ 1,475,000	\$ 537,419	\$ 3,022,630

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.

See accompanying independent auditors' report

Sierra Vista Hospital
Schedule of Individual Deposit and Investment Accounts
June 30, 2014

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Reconciling Items	Book Balance
Deposit Accounts							
Bank of the Southwest	Operating account	Interest bearing checking	\$ 865,614	\$ 387	\$ 181,612	\$ -	\$ 684,389
Bank of the Southwest	SVH - savings	Savings	2,269,569	-	-	-	2,269,569
Bank of the Southwest	Payroll account	Interest bearing checking	19,074	-	-	-	19,074
Bank of the Southwest	Empe adv fund - chkg	Interest bearing checking	831	-	-	-	831
Bank of the Southwest	Bobbie West scholars	Savings	6,030	-	-	-	6,030
Bank of the Southwest	USDA Rural Develop	Savings	100	-	-	-	100
Citizens Bank	MM - Citizens bank	Money market	502,404	-	-	-	502,404
Cash on hand	Petty cash	Petty cash	957	-	-	-	957
Certificates of Deposit							
First Savings Bank	Investment - CD	CD's	122,652	-	-	-	122,652
First Savings Bank	CD - Investment	CD's	2,030,297	-	-	-	2,030,297
Total deposits and investments			\$ 5,817,528	\$ 387	\$ 181,612	\$ -	\$ 5,636,303

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2014

	Actual	Original Approved Budget	Final Approved Budget	Variance with Final Budget - Over (Under)
<i>Revenues</i>				
Net patient service revenue	\$ 11,550,039	\$ 10,371,879	\$ 10,389,879	\$ 1,160,160
Other	45,837	249,661	249,661	(203,824)
Nonoperating revenues (expenses) and other, net	3,293,756	3,667,818	3,181,323	112,433
Total revenues	14,889,632	14,289,358	13,820,863	1,068,769
<i>Expenses</i>				
Salaries, wages, and benefits	8,783,949	8,997,779	8,893,661	(109,712)
Other	6,555,481	6,487,858	6,542,965	12,516
Total expenses	15,339,430	15,485,637	15,436,626	(97,196)
Change in net position	\$ (449,798)	\$ (1,196,279)	\$ (1,615,763)	\$ 1,165,965

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, 2014, 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 8, 2014. We also audited the schedule of revenue and expenses – budget to actual of the Hospital for the year ended June 30, 2014, 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 opinions 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 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. 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.

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

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 8, 2014

**Sierra Vista Hospital
Summary Schedule of Prior Year Findings
Year Ended June 30, 2014**

The audit for the year ended June 30, 2013, reported three findings that were resolved in the current year. There are no matters to report in this schedule for the year ending June 30, 2014.

2013-01 Mileage Reimbursement Rate – Resolved

2013-02 Legal Expense Accrual – Resolved

2013-03 Collateral Minimum Requirement – Resolved

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2014**

An exit conference was held October 8, 2014, with the Finance Committee to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Terry Egan	Governing Board, Chair
Warren Cross	Governing Board
Michael Zimmerman	Administrator
Bret Goebel	Contracted Chief Financial Officer
Chun-Ming Huang	Assistant Chief Financial Officer
Tom Dingus	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.