

# **Sierra Vista Hospital**

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2016 and 2015



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

**Sierra Vista Hospital**  
**Table of Contents**

	<b>Page</b>
<i>INTRODUCTORY SECTION:</i>	
Governing board and principal employee	1
<i>FINANCIAL SECTION:</i>	
Independent auditors' report	2-4
Management's discussion and analysis	5-9
Basic financial statements:	
Statements of net position	10
Statements of revenues, expenses, and changes in net position	11
Statements of cash flows	12-13
Notes to basic financial statements	14-27
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedule of pledged collateral	28
Schedule of individual deposit and investment accounts	29
Schedule of vendor information	30
Schedule of revenues and expenses – budget to actual	31
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	32-33
Schedule of findings and responses	34-35
Schedule of prior year findings	36
Exit conference	37

## **INTRODUCTORY SECTION**

**Sierra Vista Hospital  
Governing Board and Principal Employee  
June 30, 2016**

*County of Sierra, New Mexico, Representatives*

Terry Squier  
Terry Egan  
Nadyne Gardner Daves

*City of Truth or Consequences, New Mexico, Representatives*

Warren Cross, Chairperson  
Zenith Baker  
James Hunt

*Village of Williamsburg, New Mexico, Representative*

Greg D'Amour

*City of Elephant Butte, New Mexico, Representatives*

John Bokich  
Karen Mogen

*Ex-officio Members*

Michael Zimmerman, Sierra Vista Hospital, Chief Executive Officer  
Bruce Swingle, County of Sierra, New Mexico, County Manager  
Juan Fuentes, City of Truth or Consequences, New Mexico, City Manager  
Andrew Finzen, City of Elephant Butte, New Mexico, City Manager  
Linda Bauer, Village of Williamsburg, New Mexico, Village Clerk

*Principal Employee*

Michael Zimmerman, Chief Executive Officer

**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Joint Powers Commission, Governing Board  
and Management of Sierra Vista Hospital,  
and Mr. Timothy Keller, 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) as of June 30, 2016 and 2015, 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 schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2016, 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, 2016 and 2015, 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, 2016, 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 revenues 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 as a whole.

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, 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, 2016. We issued a similar report for the year ended June 30, 2015, dated October 12, 2015, which has not been included with the 2016 financial and compliance report. The purpose of those reports 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. Those reports are 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 7, 2016



**Sierra Vista Hospital  
Management's Discussion and Analysis  
Years Ended June 30, 2016 and 2015**

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, 2016 and 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

**Financial Highlights**

- The Hospital's net position increased by \$5,935,335 in 2016 or 47.0% and increased in 2015 by \$1,528,795 or 13.8%.
- In 2016, the Hospital reported a decrease in operating income of \$449,935 from the income reported in 2015. The operating income in 2015 increased by \$1,239,622 over the income reported in 2014.
- Nonoperating net revenues decreased by \$118,811 or 10.9% in 2016 compared to 2015. Nonoperating net revenues increased by \$525,566 or 93.7% in 2015 compared to 2014.

**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 Statements of Net Position and Statements 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 Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net 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 it. You can think of the Statements of Net Position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. The Statements of Revenues, Expenses, and Changes in Net Position tell 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 Statements of Cash Flows**

The final required statement is the Statements 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)  
Years Ended June 30, 2016 and 2015**

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position, on page 10. The Hospital's net position increased by \$5,935,335 or 47.0% in 2016, and increased by \$1,528,795 or 13.8% in 2015, as shown in Table 1.

The increase in net position is primarily due to the \$4,817,999 contribution from Sierra County for the new emergency room and the \$370,692 of contributions from the Development Board and the foundation.

The Hospital also obtained a loan for approximately \$31,000,000 to build a replacement facility. The loan proceeds were unspent as of June 30, 2016.

**Table 1. Net Position**

	2016	2015	2014
<i>Assets</i>			
Current assets	\$ 8,150,012	\$ 8,850,374	\$ 6,671,377
Capital assets, net	11,474,796	4,674,966	3,970,506
Other noncurrent assets	31,239,085	2,004,602	2,065,651
<b>Total assets</b>	<b>\$ 50,863,893</b>	<b>\$ 15,529,942</b>	<b>\$ 12,707,534</b>
<i>Liabilities</i>			
Current liabilities	\$ 1,336,142	\$ 2,239,915	\$ 1,615,399
Noncurrent liabilities	30,971,486	669,097	-
<b>Total liabilities</b>	<b>32,307,628</b>	<b>2,909,012</b>	<b>1,615,399</b>
<i>Net position</i>			
Net investment in capital assets	11,238,679	3,970,207	3,970,506
Temporarily restricted	55,851	65,651	65,651
Unrestricted	7,261,735	8,585,072	7,055,978
Total net position	18,556,265	12,620,930	11,092,135
<b>Total liabilities and net position</b>	<b>\$ 50,863,893</b>	<b>\$ 15,529,942</b>	<b>\$ 12,707,534</b>

**Sierra Vista Hospital  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2016 and 2015**

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

In 2016, the Hospital's operating income decreased by \$449,935. This is the result of total operating revenues increasing by \$3,985,940 and total operating expenses increasing by \$4,435,875 in 2016 as compared to 2015. In comparison to the results for 2015, these large changes explain the result for 2016: Increase in net patient service revenue of \$4,302,213 and a decrease in nonoperating income of \$118,811. The change in results from 2015 to 2016 is an improvement of \$4,406,540 by moving from a profit of \$1,528,795 for 2015 to a profit of \$5,935,335 for 2016.

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

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue	\$ 18,831,104	\$ 14,528,891	\$ 11,550,039
Safety net care pool	1,565,199	1,501,065	1,873,501
EHR incentive revenue	11,719	257,029	74,542
Grants and other operating revenue	230,885	365,982	432,346
Total operating revenues	<b>20,638,907</b>	16,652,967	13,930,428
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	11,378,761	9,611,679	8,783,949
Supplies, insurance, and other	8,595,798	6,160,529	5,409,697
Depreciation and amortization	885,384	651,860	747,505
Total operating expenses	<b>20,859,943</b>	16,424,068	14,941,151
<i>Operating income (loss)</i>	<b>(221,036)</b>	228,899	(1,010,723)
<i>Nonoperating revenues (expenses)</i>			
Gross receipts and mill levy tax revenue	1,116,877	1,052,677	521,862
Contributions	5,000	635	3,802
Interest expense	(5,323)	(5,335)	-
Interest income	30,283	33,514	35,261
Debt issuance cost	(179,157)	-	-
Gain on disposal of capital assets	-	5,000	-
Total nonoperating revenues (expenses), net	<b>967,680</b>	1,086,491	560,925
Excess of revenues over expenses (expenses over revenues)	<b>746,644</b>	1,315,390	(449,798)
Capital contributions from Sierra County	<b>4,817,999</b>	-	-
Capital grants and contributions	<b>370,692</b>	213,405	-
Change in net position	<b>5,935,335</b>	1,528,795	(449,798)
Net position, beginning of year	<b>12,620,930</b>	11,092,135	11,541,933
<b>Net position, end of year</b>	<b>\$ 18,556,265</b>	\$ 12,620,930	\$ 11,092,135

**Sierra Vista Hospital  
Management’s Discussion and Analysis (Continued)  
Years Ended June 30, 2016 and 2015**

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

During the year operating revenues increased \$3,985,940 or 23.9%. Operating expenses increased in the amount of \$4,435,875 or 27.0%.

In 2016, the Hospital was in an expansion mode. In order to expand hospital services, you must front load the cost in order to get services in place for patients to utilize them. With new services lines like cardiology, orthopedics, nuclear medicine, and 24/7 operating room coverage, the capital requirements are quite substantial. The Hospital as a whole, including the rural health clinics, has seen an overall increase in volumes. Due to more providers available in the community, fewer residents are seeking medical services outside of Truth or Consequences.

When you consider the rapid expansion of services in 2016, one would expect cost to increase as well. Salaries, wages, and benefits saw an increase of approximately 18 percent. The Hospital has had to increase staff numbers in order to accommodate the new service lines. The Hospital also hired new providers in order to expand the rural health clinic. With the increase in volumes, the Hospital saw an increase of approximately 39 percent in supplies, insurance, and other expenses.

**Table 3. Budget to Actual**

	Actual	Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 26,795,278	\$ 21,062,059	\$ 5,733,219
Budgetary basis expenses	20,859,943	20,691,943	(168,000)
<b>Excess of revenues over expenses</b>	<b>\$ 5,935,335</b>	<b>\$ 370,116</b>	<b>\$ 5,901,219</b>

Actual results compare favorably to budgeted amounts for the Hospital due to actual revenues being \$5,733,219 more than budgeted, while actual expenses were only \$168,000 more than budgeted. This results in a positive variance of \$5,565,219 with excess of revenues over expenses being \$5,935,335 as compared to budgeted excess of revenues over expenses of \$370,116, as shown in Table 3.

The Hospital revenues include the Sierra County and other capital contributions of \$5,188,691 that were not included in the original budget and the Hospital expenses include an additional \$238,000 of depreciation expense on these contributed capital assets that was not included in the original budget.

**Capital Asset and Debt Administration**

***Capital Assets***

At June 30, 2016, the Hospital had \$11,474,796 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic financial statements. In 2016, the Hospital purchased new assets costing \$7,685,214. The majority of the additions are related to the new emergency room, including the \$4,817,999 contributed by Sierra County.

**Sierra Vista Hospital  
Management's Discussion and Analysis (Continued)  
Years Ended June 30, 2016 and 2015**

**Capital Asset and Debt Administration (continued)**

***Debt***

At June 30, 2016, the Hospital had \$121,163 in capital lease obligations and a \$30,220,000 New Mexico Finance Authority Loan Agreement outstanding as detailed in Note 7 to the basic financial statements. 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.

The New Mexico Finance Authority Loan Agreement will be used to build a replacement hospital.

**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.

The Hospital is expecting volumes to continue to rise over the next couple of years. The basis for this rationale is, as the housing markets continue to improve in surrounding metropolitan areas, families will resume buying vacation homes in and around our community. Also, with the continued excitement of the new hospital, we feel residents will continue the trend of reducing outmigration of services. Hospital administration is confident in the Hospital and its long-term success as a critical access hospital.

**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 9<sup>th</sup> Street, Truth or Consequences, New Mexico 87901.

**Sierra Vista Hospital**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,825,804	\$ 3,433,940
Investment in certificates of deposit	2,195,096	2,173,987
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$2,070,000 and \$1,777,000, respectively	2,203,038	2,223,346
Safety net care pool receivable	502,485	376,123
Estimated third-party payor settlement receivable	775,000	-
Electronic health records system incentive	-	67,904
Grants receivable	35,111	76,770
Taxes receivable	131,269	90,816
Inventories	370,881	356,743
Prepaid expenses	111,328	50,745
<b>Total current assets</b>	<b>8,150,012</b>	<b>8,850,374</b>
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital improvements	-	1,938,951
Cash and cash equivalents, restricted as to use for capital improvements	31,239,085	65,651
Capital assets, net	11,474,796	4,674,966
<b>Total noncurrent assets</b>	<b>42,713,881</b>	<b>6,679,568</b>
<b>Total assets</b>	<b>\$ 50,863,893</b>	<b>\$ 15,529,942</b>
<b>LIABILITIES AND NET POSITION</b>		
<i>Current liabilities</i>		
Current maturities of loan payable and capital lease obligations	\$ 447,865	\$ 35,662
Accounts payable	317,636	481,213
Estimated third-party payor settlements payable	-	979,662
Accrued compensation and related liabilities	570,641	743,378
<b>Total current liabilities</b>	<b>1,336,142</b>	<b>2,239,915</b>
<i>Noncurrent liabilities</i>		
Loan payable and capital lease obligations, net of current maturities	30,971,486	121,164
Accounts payable - capital	-	547,933
<b>Total noncurrent liabilities</b>	<b>30,971,486</b>	<b>669,097</b>
<b>Total liabilities</b>	<b>32,307,628</b>	<b>2,909,012</b>
<i>Net position</i>		
Net investment in capital assets	11,238,679	3,970,207
Restricted	55,851	65,651
Unrestricted	7,261,735	8,585,072
<b>Total net position</b>	<b>18,556,265</b>	<b>12,620,930</b>
<b>Total liabilities and net position</b>	<b>\$ 50,863,893</b>	<b>\$ 15,529,942</b>

See accompanying notes to basic financial statements.

**Sierra Vista Hospital**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$2,721,679 and \$2,534,837, respectively	\$ 18,831,104	\$ 14,528,891
Safety net care pool	1,565,199	1,501,065
Electronic health records system incentive	11,719	257,029
Grants	95,717	295,262
Other	135,168	70,720
<b>Total operating revenues</b>	<b>20,638,907</b>	<b>16,652,967</b>
<i>Operating expenses</i>		
Salaries and wages	9,729,325	8,089,593
Employee benefits	1,649,436	1,522,086
Professional fees	4,689,144	2,634,954
Supplies	1,877,156	1,719,725
Utilities	344,105	282,032
Repairs and maintenance	406,510	503,968
Leases and rentals	134,005	71,160
Depreciation and amortization	885,384	651,860
Insurance	332,310	375,972
Other	812,568	572,718
<b>Total operating expenses</b>	<b>20,859,943</b>	<b>16,424,068</b>
<b>Operating income (loss)</b>	<b>(221,036)</b>	<b>228,899</b>
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	490,691	481,947
Mill levy revenue	626,186	570,730
Contributions	5,000	635
Interest income	30,283	33,514
Interest expense	(5,323)	(5,335)
Debt issuance costs	(179,157)	-
Gain on disposal of capital assets	-	5,000
<b>Total nonoperating revenues (expenses)</b>	<b>967,680</b>	<b>1,086,491</b>
Excess of revenues over expenses before capital contributions	746,644	1,315,390
Capital contributions from Sierra County	4,817,999	-
Capital contributions	370,692	213,405
Change in net position	5,935,335	1,528,795
Net position, beginning of year	12,620,930	11,092,135
<b>Net position, end of year</b>	<b>\$ 18,556,265</b>	<b>\$ 12,620,930</b>

See accompanying notes to basic financial statements.

**Sierra Vista Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 18,535,587	\$ 16,625,824
Receipts from grants	137,376	229,992
Receipts from other revenue	135,168	70,720
Electronic health records system incentive	79,623	189,125
Payments to and on behalf of employees	(11,551,498)	(9,567,590)
Payments to suppliers and contractors	(8,834,096)	(6,193,700)
Net cash provided by (used in) operating activities	(1,497,840)	1,354,371
<i>Cash flows from noncapital financing activities</i>		
Contributions	5,000	635
Receipts from gross receipts tax	486,391	468,484
Receipts from mill levies	590,033	557,714
Net cash provided by noncapital financing activities	1,081,424	1,026,833
<i>Cash flows from capital and related financing activities</i>		
Principal payments on capital lease obligations	(35,663)	(30,293)
Interest paid	(5,323)	(5,335)
Debt issuance costs paid	(179,157)	-
Capital grants and contributions	-	213,405
Proceeds from issuance of long-term debt	31,298,188	-
Purchase of capital assets	(3,044,456)	(616,268)
Net cash provided by (used in) capital and related financing activities	28,033,589	(438,491)
<i>Cash flows from investing activities</i>		
Purchase of investments	(21,109)	(21,038)
Interest received	30,283	33,514
Net cash provided by investing activities	9,174	12,476
Net increase in cash and cash equivalents	27,626,347	1,955,189
Cash and cash equivalents, beginning of year	5,438,542	3,483,353
<b>Cash and cash equivalents, end of year</b>	<b>\$ 33,064,889</b>	<b>\$ 5,438,542</b>

*See accompanying notes to basic financial statements.*



**Sierra Vista Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 1,825,804	\$ 3,433,940
Cash and cash equivalents limited as to use for capital improvements	-	1,938,951
Cash and cash equivalents, restricted as to use for capital improvements	31,239,085	65,651
<b>Total cash and cash equivalents</b>	<b>\$ 33,064,889</b>	<b>\$ 5,438,542</b>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities</i></b>		
Operating income (loss)	\$ (221,036)	\$ 228,899
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	885,384	651,860
Provision for bad debts	2,721,679	2,534,837
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(2,701,371)	(3,074,229)
Safety net care pool	(126,362)	306,623
Estimated third-party payor settlements	(775,000)	-
Electronic health records system incentive	67,904	(67,904)
Grants	41,659	(65,270)
Inventories	(14,138)	(37,744)
Prepaid expenses	(60,583)	288,445
Increase (decrease) in liabilities:		
Accounts payable	(163,577)	(283,872)
Estimated third-party payor settlements	(979,662)	828,637
Accrued compensation and related liabilities	(172,737)	44,089
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,497,840)</b>	<b>\$ 1,354,371</b>

***Noncash Investing, Capital, and Financing Activities***

During 2016, Sierra County contributed \$4,817,999 related to the emergency room addition and remodel project. The Auxiliary, the Community Health Foundation, and the Sierra Vista Hospital Development Organization contributed capital in the amount of \$370,692.

*See accompanying notes to basic financial statements.*

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements**  
**Years Ended June 30, 2016 and 2015**

**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 made contributions to the Hospital in the amounts of \$199,000 and \$0 during fiscal years 2016 and 2015, respectively. The Hospital provided support to the Organization of approximately \$59,000 and \$5,000 during fiscal years 2016 and 2015, 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 made contributions to the Hospital in the amounts of \$155,000 and \$0 during fiscal years 2016 and 2015, respectively.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 asset 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, 2016 and 2015**

**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.

**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. Actual expenditures exceeded budgeted expenditures for the year ended June 30, 2016.

**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 the assets for other purposes. Assets restricted as to use include assets restricted by donors for capital improvements and the New Mexico Finance Authority for the construction and debt service reserve.

**Change in accounting policies** – Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements and Application*, is effective for years beginning after June 15, 2015 (fiscal year ended June 30, 2016, for the Hospital). The statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this statement has no impact on change in net position.

**Reclassifications** – Certain reclassifications have been made to the 2015 financial statements to conform with the classifications used in the 2016 financial statements with no effect on previously reported change in net position.

**Subsequent events** – Subsequent events have been reviewed through October 7, 2016, 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, 2016 and 2015**

**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'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, 2016 and 2015, the Hospital had \$442,221 and \$1,707,880, respectively, held at the Bank of the Southwest. At June 30, 2015, the deposit balances exceeded the FDIC coverage and collateral held in the name of the financial institution by \$607,880.

At June 30, 2016 and 2015, the Hospital had \$1,731,284 and \$4,005,241, respectively, held in a money market account with Citizens Bank. At June 30, 2015, the deposit balances exceeded the FDIC coverage by \$1,732,469.

At June 30, 2016 and 2015, the Hospital had \$2,195,096 and \$2,173,987, respectively, invested in certificates of deposit with First Savings Bank.

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:

	2016					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Certificates of deposit	\$ 2,195,096	\$ -	\$ 2,195,096	\$ -	\$ -	Not applicable
<b>Total investments</b>	<b>\$ 2,195,096</b>	<b>\$ -</b>	<b>\$ 2,195,096</b>	<b>\$ -</b>	<b>\$ -</b>	

  

	2015					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Certificates of deposit	\$ 2,173,987	\$ -	\$ 2,173,987	\$ -	\$ -	Not applicable
<b>Total investments</b>	<b>\$ 2,173,987</b>	<b>\$ -</b>	<b>\$ 2,173,987</b>	<b>\$ -</b>	<b>\$ -</b>	

**Fair value** – The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Hospital's certificates of deposit are valued using quoted market prices (Level 2 input).

The schedule of pledged collateral for the funds held by the New Mexico Finance Authority (see Note 3) is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the office of the state treasurer's collateral bureau monitors pledged collateral for all state funds held by state agencies in such authorized bank accounts.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**3. Cash and Cash Equivalents Restricted as to Use:**

The composition of cash and cash equivalents restricted as to use was as follows:

	2016	2015
Restricted under New Mexico Finance Authority loan agreement for debt service reserve	\$ 2,000,200	\$ -
Restricted under New Mexico Finance Authority loan agreement for capital improvements	29,183,034	-
Restricted by donor for capital improvements	55,851	65,651
<b>Total cash and cash equivalents restricted as to use</b>	<b>\$ 31,239,085</b>	<b>\$ 65,651</b>

**4. 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 include 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 does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

Patient accounts receivable reported as current assets by the Hospital consisted of these amounts:

	<b>2016</b>	<b>2015</b>
Receivable from patients and their insurance carriers	\$ 2,714,535	\$ 2,443,973
Receivable from Medicare	783,027	820,352
Receivable from Medicaid	775,831	735,936
Total patient accounts receivable	<b>4,273,393</b>	4,000,261
Less allowance for uncollectible accounts	<b>2,070,355</b>	1,776,915
<b>Net patient accounts receivable</b>	<b>\$ 2,203,038</b>	\$ 2,223,346

**5. 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 \$626,000 and \$571,000 in 2016 and 2015, 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 \$491,000 and \$482,000 in 2016 and 2015, respectively.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**6. Capital Assets:**

The Hospital capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least two years. Capital asset 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:

	2016				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 1,735,266	\$ 1,806,980	\$ -	\$ (3,542,121)	\$ 125
Land	506,649	-	-	-	506,649
Total capital assets not being depreciated	2,241,915	1,806,980	-	(3,542,121)	506,774
<i>Capital assets being depreciated</i>					
Buildings and improvements	2,782,492	4,855,828	-	2,340,179	9,978,499
Equipment	5,558,091	1,022,406	-	1,201,942	7,782,439
Total capital assets being depreciated	8,340,583	5,878,234	-	3,542,121	17,760,938
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(1,531,735)	(293,312)	-	-	(1,825,047)
Equipment	(4,375,797)	(592,072)	-	-	(4,967,869)
Total accumulated depreciation	(5,907,532)	(885,384)	-	-	(6,792,916)
Total capital assets being depreciated, net	2,433,051	4,992,850	-	3,542,121	10,968,022
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 4,674,966</b>	<b>\$ 6,799,830</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,474,796</b>



**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

	2015				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 1,019,812	\$ 715,454	\$ -	\$ -	\$ 1,735,266
Land	410,704	95,945	-	-	506,649
Total capital assets not being depreciated	1,430,516	811,399	-	-	2,241,915
<i>Capital assets being depreciated</i>					
Buildings and improvements	2,718,104	64,388	-	-	2,782,492
Equipment	5,077,558	480,533	-	-	5,558,091
Total capital assets being depreciated	7,795,662	544,921	-	-	8,340,583
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(1,356,594)	(175,141)	-	-	(1,531,735)
Equipment	(3,899,078)	(476,719)	-	-	(4,375,797)
Total accumulated depreciation	(5,255,672)	(651,860)	-	-	(5,907,532)
Total capital assets being depreciated, net	2,539,990	(106,939)	-	-	2,433,051
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 3,970,506</b>	<b>\$ 704,460</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,674,966</b>

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**7. Noncurrent Liabilities:**

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

	<b>2016</b>					<b>Amounts Due Within One Year</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>		
New Mexico Finance Authority Loan Agreement	\$ -	\$ 30,220,000	\$ -	\$ 30,220,000	\$ 410,833	
New Mexico Finance Authority premium	-	1,078,188	-	1,078,188	-	
Capital lease obligations	156,826	-	(35,663)	121,163	37,032	
Compensated absences	264,835	762,217	(725,663)	301,389	301,389	
<b>Total noncurrent liabilities</b>	<b>\$ 421,661</b>	<b>\$ 32,060,405</b>	<b>\$ (761,326)</b>	<b>\$ 31,720,740</b>	<b>\$ 749,254</b>	

	<b>2015</b>					<b>Amounts Due Within One Year</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>		
Capital lease obligations	\$ -	\$ 187,119	\$ (30,293)	\$ 156,826	\$ 35,662	
Compensated absences	287,728	627,251	(650,144)	264,835	264,835	
<b>Total noncurrent liabilities</b>	<b>\$ 287,728</b>	<b>\$ 814,370</b>	<b>\$ (680,437)</b>	<b>\$ 421,661</b>	<b>\$ 300,497</b>	

During 2015, the Hospital entered into two capital lease obligations at varying rates of imputed interest from 4.1% to 4.6% during the fiscal year. The leases are collateralized by leased equipment. At June 30, 2016, the capitalized costs and accumulated depreciation of the capital lease obligations were \$187,119 and \$49,407, respectively.

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

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 37,032	\$ 3,955	\$ 40,987
2018	38,453	2,534	40,987
2019	39,930	1,057	40,987
2020	5,748	49	5,797
	<b>\$ 121,163</b>	<b>\$ 7,595</b>	<b>\$ 128,758</b>

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**7. Noncurrent Liabilities (continued):**

The Hospital entered into the New Mexico Finance Authority loan agreement, dated May 24, 2016, in the original amount of \$30,220,000, for the construction of a new hospital. The note is due in monthly installments, including interest at a blended rate of 3.33%, through May 1, 2046, as follows:

Years Ending June 30,	Principal	Interest	Total
2017	\$ 410,833	\$ 1,268,625	\$ 1,679,458
2018	367,500	1,061,117	1,428,617
2019	383,333	1,045,783	1,429,116
2020	402,500	1,026,617	1,429,117
2021	419,167	1,006,491	1,425,658
2022-2026	2,440,834	4,695,084	7,135,918
2027-2031	3,050,000	4,087,800	7,137,800
2032-2036	6,255,000	3,269,200	9,524,200
2037-2041	7,807,500	2,017,175	9,824,675
2042-2046	8,683,333	777,775	9,461,108
	<b>\$ 30,220,000</b>	<b>\$ 20,255,667</b>	<b>\$ 50,475,667</b>

The New Mexico Finance Authority (NMFA) loan agreement requires that the Hospital have a coverage ratio of 130%. The coverage ratio requires the sum of pledged revenue, which includes all operating revenue and all tax receipts, to be 130% of operating expenses, excluding depreciation, and maximum aggregate annual debt service requirement.

The NMFA premium is being amortized over the loan term using the effective-interest method.

**8. 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 NMFA.

The promissory note was an obligation of the County and not the Hospital. The transfer of the building project was recognized as a capital contribution from Sierra County of \$4,817,999 in 2016.

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.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**9. 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. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. 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:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 5,833,200	\$ 6,518,862
Medicaid/Centennial Care	6,639,085	4,864,307
Other third-party payors	8,292,122	4,609,962
Patients	999,120	1,281,788
	<b>21,763,527</b>	17,274,919
Less:		
Charity care	210,744	211,191
Provision for bad debts	2,721,679	2,534,837
<b>Net patient service revenue</b>	<b>\$ 18,831,104</b>	<b>\$ 14,528,891</b>

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

The Hospital has agreements with third-party payors that provide 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/Centennial Care* – 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.

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 \$69,000 in 2016 and \$5,000 in 2015, 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, 2016 and 2015, were approximately \$136,000 and \$115,000, respectively.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**10. Retirement Plan:**

The Hospital provides the DATAIR Section 403(b) Non-ERISA Basic plan (the Plan). The Plan is a defined-contribution plan and is authorized under Internal Revenue Code 403(b). The Plan is administered by the Hospital. The Hospital has the authority to amend the Plan. Substantially all employees are eligible. Employee contributions are limited to \$18,000 and \$6,000 of catch-up contributions per year for employees over 50 years of age. Employee contributions were approximately \$141,000 and \$86,000 during the years ended June 30, 2016 and 2015, respectively. The Hospital will match dollar per dollar up to the first 3% of each employee's contribution. The Hospital's contributions to the Plan were approximately \$36,000 and \$50,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015. 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 \$11,719 and \$257,029 were recognized in the years ended June 30, 2016 and 2015, respectively.

**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.

**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.

**Sierra Vista Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**13. Concentration of Risk:**

*Patient accounts receivable* – 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:

	<b>2016</b>	<b>2015</b>
Medicare	<b>26 %</b>	28 %
Medicaid/Centennial Care	<b>18</b>	19
Patients	<b>30</b>	28
Commercial and other	<b>26</b>	25
	<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.

**14. Related-party Transactions:**

The Hospital purchased dispatch services from the County of approximately \$25,000 in the fiscal years ended June 30, 2016 and 2015.

The Hospital purchased electricity from the City of approximately \$214,000 and \$145,000 during the fiscal years ended June 30, 2016 and 2015, respectively.

The Hospital contracted with a Board member for pharmacy services of approximately \$2,000 and \$5,000 during the fiscal years ended June 30, 2016 and 2015, respectively.

**SUPPLEMENTAL INFORMATION**



**Sierra Vista Hospital  
Schedule of Pledged Collateral  
June 30, 2016**

	<b>Bank of the Southwest</b>	<b>Citizens Bank</b>	<b>First Savings Bank</b>
Deposits at June 30, 2016	\$ 442,221	\$ 1,731,284	\$ 2,195,096
Less: FDIC coverage	(250,000)	(250,000)	(250,000)
Uninsured public funds	192,221	1,481,284	1,945,096
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	950,000	2,625,235	3,068,996
Total uninsured and uncollateralized public funds	\$ (757,779)	\$ (1,143,951)	\$ (1,123,900)
50% pledged collateral requirement per statute	\$ 96,110	\$ 740,642	\$ 972,549
Total pledged collateral	950,000	2,625,235	3,068,996
<b>Pledged collateral over the requirement</b>	<b>\$ (853,890)</b>	<b>\$ (1,884,593)</b>	<b>\$ (2,096,447)</b>

Pledged collateral at June 30, 2016, 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 December 12, 2016	\$ 950,000		
FFCB letter of credit, matures April 1, 2021		\$ 1,040,251	
FHLB letter of credit, matures December 9, 2022		1,584,984	
MBS FHLMC Gold 10Yr, CUSIP #31306XQD8, matures September 1, 2022			\$ 37,344
MBS FHLMC Gold 10Yr, CUSIP #31307BJV3, matures March 1, 2023			78,810
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			109,226
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			69,468
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			54,613
MBS FNMA 15Yr, CUSIP #3138E4X71, matures February 1, 2027			59,158
MBS FNMA 15Yr, CUSIP #36176XBY4, matures February 15, 2027			146,282
MBS FNMA 15Yr, CUSIP #36176XBY4, matures February 15, 2027			48,761
MBS FHLMC 15Yr, CUSIP #3128MDEC3, matures May 1, 2027			58,278
MBS GNR 15Yr, CUSIP #38378HAU0, matures August 20, 2027			100,913
MBS FNMA 15Yr, CUSIP #3138MJWW5, matures November 1, 2027			157,566
MBS FNMA 15Yr, CUSIP #3138MJWW5, matures November 1, 2027			126,053
MBS FNMA 15Yr, CUSIP #3138EKJA4, matures January 1, 2028			100,260
MBS FNMA 15Yr, CUSIP #3138EKJA4, matures January 1, 2028			100,260
MBS FHLMC Gold 15Yr, CUSIP #31307DB62, matures June 1, 2028			174,361
MBS FHLMC 15Yr CUSIP #3128MECV1, matures February 1, 2030			350,454
GNR 2010-171 PA, CUSIP #38377NRJ5, matures March 16, 2038			238,417
GNR 2011-21 QC, CUSIP #38377TVG3, matures May 20, 2038			517,360
GNR 2011-21 FHR, CUSIP #3137AF4A, matures July 15, 2040			34,342
GNR 2011-21 FHR, CUSIP #3137AF4A, matures July 15, 2040			228,948
GNR 2011-21 FHR, CUSIP #3137BKWM8, matures May 15, 2044			278,122
<b>Total pledged securities</b>	<b>\$ 950,000</b>	<b>\$ 2,625,235</b>	<b>\$ 3,068,996</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 Savings Bank – Beresford, South Dakota.

*See accompanying independent auditors' report.*

**Sierra Vista Hospital**  
**Schedule of Individual Deposit and Investment Accounts**  
**June 30, 2016**

<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	\$ 370,273	\$ 1,370	\$ (262,470)	\$ (15,617)	\$ 93,556
Bank of the Southwest	SVH - savings	Savings	17,741	-	-	-	17,741
Bank of the Southwest	Payroll account	Interest bearing checking	35,205	-	(16,733)	-	18,472
Bank of the Southwest	Empe adv fund - chkg	Interest bearing checking	15,533	-	-	-	15,533
Bank of the Southwest	Bobbie West scholars	Savings	3,469	-	-	-	3,469
Bank of the Southwest	USDA Rural Develop	Savings	-	-	-	-	-
Citizens Bank	MM - Citizens bank	Money market	1,731,284	-	-	-	1,731,284
<b>Cash on hand</b>	Petty cash	Petty cash	1,600	-	-	-	1,600
<b>Certificates of Deposit</b>							
First Savings Bank	Investment - CD	Certificates of Deposit	124,455	-	-	-	124,455
First Savings Bank	CD - Investment	Certificates of Deposit	2,070,641	-	-	-	2,070,641
<b>New Mexico Finance Authority</b>	Reserve Fund	Money Market	2,000,200	-	-	-	2,000,200
<b>New Mexico Finance Authority</b>	Construction Fund	Money Market	29,183,034	-	-	-	29,183,034
<b>Total deposits and investments</b>			<b>\$ 35,553,435</b>	<b>\$ 1,370</b>	<b>\$ (279,203)</b>	<b>\$ (15,617)</b>	<b>\$ 35,259,985</b>

*See accompanying independent auditors' report.*

**Sierra Vista Hospital  
Schedule of Vendor Information  
Year Ended June 30, 2016**

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
Sierra Vista Hospital did not enter into any contracts exceeding \$60,000 during the year ended June 30, 2016, that required procurement procedures per New Mexico Procurement code.													

*See accompanying independent auditors' report.*

**Sierra Vista Hospital**  
**Schedule of Revenues and Expenses – Budget to Actual**  
**Year Ended June 30, 2016**

	Actual	Original Approved Budget	Final Approved Budget	Variance with Final Budget - Over (Under)
<i>Revenues</i>				
Net patient service revenue	\$ 18,831,104	\$ 19,731,904	\$ 19,731,904	\$ (900,800)
Other	135,168	51,681	51,681	83,487
Nonoperating revenues (expenses) and other, net	7,829,006	1,278,474	1,278,474	6,550,532
<b>Total revenues</b>	<b>26,795,278</b>	21,062,059	21,062,059	5,733,219
<i>Expenses</i>				
Salaries, wages, and benefits	11,378,761	11,767,263	12,467,263	(1,088,502)
Other	9,481,182	7,524,680	8,224,680	1,256,502
<b>Total expenses</b>	<b>20,859,943</b>	19,291,943	20,691,943	168,000
<b>Change in net position</b>	<b>\$ 5,935,335</b>	\$ 1,770,116	\$ 370,116	\$ 5,565,219

*See accompanying independent auditors' report.*



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

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

Joint Powers Commission, Governing Board  
and Management of Sierra Vista Hospital,  
and Mr. Timothy Keller, 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, 2016, 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 7, 2016. We also audited the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2016, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider deficiency 2016-002 described in the accompanying schedule of findings and responses to be a material weakness.

## **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 item 2015-001.

## **The 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 7, 2016

**Sierra Vista Hospital  
Schedule of Findings and Responses  
Year Ended June 30, 2016**

**2015-001 Actual Expenditures Exceeded Budgeted Expenditures**

[X] Compliance Finding   [ ] Significant Deficiency   [ ] Material Weakness

<i>Criteria</i>	In order to comply with Section 2.2.2.10 O (1) NMAC, actual expenditures cannot exceed budgeted expenditures at the fund level.
<i>Condition</i>	The Hospital's actual expenditures for fiscal year 2016 exceeded budgeted expenditures by \$168,000. The Hospital had monitored actual to budget expenses throughout the year and had amended the budget. An audit adjustment subsequent to yearend resulted in actual expenses exceeding budgeted expenses.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The Hospital is not in compliance with Section 2.2.2.10 O (1) NMAC.
<i>Cause</i>	The Hospital did not amend its original budget to reflect additional expenses incurred.
<i>Recommendation</i>	The Hospital should monitor expenditures throughout the fiscal year to ensure actual expenses do not exceed budgeted expenses. If necessary, an amended budget should be submitted to the DFA for approval.
<i>Management's Response</i>	During the course of the audit, we had revenues that were recorded differently than what the auditors were requesting. We had a donation from Sierra County for our new emergency room, \$4.8 million, that was not recorded as income. We also had donations from our Development Board and our Foundation totaling \$354,000. These donations were also not recorded as income. The auditors proposed these adjustments to our year to date income statement. These assets were all capital purchase and were also needed to be added to our asset schedule, thusly increasing our depreciation expense over budget by \$238,000 for the year. With this new knowledge, the chief financial officer will account for these changes in our 2017 budget. The chief financial officer will monitor the budget throughout the year.

**Sierra Vista Hospital  
Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2016**

**2016-002 Auditor – Detected Adjustments**

[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	Timely and accurate information should be available to management and those charged with governance to make decisions.
<i>Condition</i>	Material audit adjustments were made to correct capital contributions from Sierra County and other donors, capital assets, restricted cash and cash equivalents, long-term debt, estimated Medicare settlements, and the allowance for uncollectible patient accounts receivable.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	There were material errors in the financial statements that were corrected through auditor-proposed adjustments.
<i>Cause</i>	The Hospital was not aware of the requirement to record the capital contributions and long-term debt. The Hospital did not have a review process in place for the estimated Medicare settlement and allowance for uncollectible patient accounts receivable.
<i>Recommendation</i>	The Hospital should develop review processes for the estimated Medicare settlements and allowance for uncollectible patient accounts receivable. The Hospital should seek consultation regarding unique transactions.
<i>Management's Response</i>	The chief financial officer will review the general ledger on a monthly basis and make necessary revisions to ensure actual assets and liabilities are recorded.



**Sierra Vista Hospital  
Schedule of Prior Year Findings  
Year Ended June 30, 2016**

Prior-Year Number	Description	Current Status
2015-001	Actual Expenditures Exceeded Budgeted Expenditures – Compliance Finding	Repeated as 2015-001

**Sierra Vista Hospital  
Exit Conference  
Year Ended June 30, 2016**

An exit conference was held October 7, 2016, with the following individuals to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Warren Cross	Governing Board, Chair
Michael Zimmerman	Chief Executive Officer
Steve Stewart	Chief Financial Officer
Tom Dingus	Dingus, Zarecor & Associates PLLC

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