Sierra Vista Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Sierra Vista Hospital
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Governing Board and Principal Employee
June 30, 2017

County of Sierra, New Mexico, Representatives
Terry Squier
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City of Truth or Consequences, New Mexico, Representatives
Juan Fuentes
Bruce Swingle
Zenith Baker

Village of Williamsburg, New Mexico, Representative
Greg D'Amour, Chairperson

City of Elephant Butte, New Mexico, Representatives
Tony Rivera
Ann Filosa

Ex-officio Members
Linda Bauer, Village Clerk
Yovanne Lucero, Elephant Butte City Manager

Principal Employee
Thomas Dandridge, Interim Chief Executive Officer

FINANCIAL SECTION

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Joint Powers Commission, Governing Board
and Management of Sierra Vista Hospital,
and Mr. 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 and for the years ended June 30, 2017 and 2016, 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, 2017, 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.

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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, 2017 and 2016, 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, 2017, 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 audits 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, schedule of individual deposit and investment accounts, and indigent care cost and funding report, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report, 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, 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, 2017. We issued a similar report for the year ended June 30, 2016, dated October 7, 2016, which has not been included with the 2017 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 11, 2017

Sierra Vista Hospital
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

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, 2017 and 2016. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Financial Highlights

- The Hospital's net position decreased by $1,676,578 in 2017 or 9.0 percent and increased in 2016 by $5,935,335 or 47.0 percent.
- In 2017, the Hospital reported a decrease in operating income of $2,926,171 from the income reported in 2016. The operating income in 2016 decreased by $449,935 below the income reported in 2015.
- Nonoperating net revenues increased by $269,844 or 27.9 percent in 2017 compared to 2016. Nonoperating net revenues decreased by $118,811 or 10.9 percent in 2016 compared to 2015.

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?"

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 decreased by $1,676,578 or 9.0 percent in 2017, and increased by $5,935,335 or 47.0 percent in 2016, as shown in Table 1.

The decrease in net position is primarily due to growth in operating expenses of $4,016,376 and an increased loss from operations of $2,926,171.

Table 1. Net Position

	2017	**2016**	**2015**
Assets			
Current assets	**$ 6,101,659**	$ 8,205,863	$ 8,850,374
Capital assets, net	**13,830,170**	11,474,796	4,674,966
Other noncurrent assets	**30,045,556**	31,183,234	2,004,602
Total assets	**$ 49,977,385**	$ 50,863,893	$ 15,529,942
Liabilities			
Current liabilities	**$ 2,504,771**	$ 1,336,142	$ 2,239,915
Noncurrent liabilities	**30,592,927**	30,971,486	669,097
Total liabilities	**33,097,698**	32,307,628	2,909,012
Net position			
Net investment in capital assets	**12,867,793**	11,238,679	3,970,207
Temporarily restricted	**-**	-	65,651
Unrestricted	**4,011,894**	7,317,586	8,585,072
Total net position	**16,879,687**	18,556,265	12,620,930
Total liabilities and net position	**$ 49,977,385**	$ 50,863,893	$ 15,529,942

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's operating income decreased by $2,926,171. This is the result of total operating revenues increasing by $1,090,205 and total operating expenses increasing by $4,016,376 in 2017 as compared to 2016. In comparison to the results for 2016, the Hospital experienced relatively flat net patient service revenue growth against increased operating expenses.

Table 2. Operating Results and Changes in Net Position

	2017	2016	2015
Operating revenues			
Net patient service revenue	**$ 19,400,087**	$ 18,842,823	$ 14,528,891
Safety net care pool	**2,110,358**	1,565,978	1,501,065
EHR incentive revenue	**-**	-	257,029
Grants and other operating revenue	**218,667**	230,106	365,982
Total operating revenues	**21,729,112**	20,638,907	16,652,967
Operating expenses			
Salaries, wages, and employee benefits	**13,143,084**	11,378,761	9,611,679
Supplies, insurance, and other	**10,586,777**	8,595,798	6,160,529
Depreciation and amortization	**1,146,458**	885,384	651,860
Total operating expenses	**24,876,319**	20,859,943	16,424,068
Operating income (loss)	**(3,147,207)**	(221,036)	228,899
Nonoperating revenues (expenses)			
Gross receipts and mill levy tax revenue	**1,209,170**	1,116,877	1,052,677
Contributions	**8,680**	5,000	635
Interest expense	**(7,639)**	(5,323)	(5,335)
Interest income	**27,313**	30,283	33,514
Debt issuance cost	**-**	(179,157)	-
Gain on disposal of capital assets	**-**	-	5,000
Total nonoperating revenues, net	**1,237,524**	967,680	1,086,491
Excess of revenues over expenses (expenses over revenues)	**(1,909,683)**	746,644	1,315,390
Capital contributions from Sierra County	**-**	4,817,999	-
Capital grants and contributions	**233,105**	370,692	213,405
Change in net position	**(1,676,578)**	5,935,335	1,528,795
Net position, beginning of year	**18,556,265**	12,620,930	11,092,135
Net position, end of year	**$ 16,879,687**	$ 18,556,265	$ 12,620,930

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

During the year operating revenues increased $1,090,205 or 5.3 percent. Operating expenses increased in the amount of $4,016,376 or 19.3 percent.

In 2017, the Hospital continued to experience increased costs, however volumes over the year did not see the expected growth. Salaries, wages, and benefits saw a 16% increase while supplies and other operating expenses grew by 23%.

Table 3. Budget to Actual

		Actual		Final Budget		Positive (Negative) Variance
Budgetary basis revenues	**$**	**23,199,741**	$	23,768,552	$	(568,811)
Budgetary basis expenses		**24,876,319**		24,649,503		(226,816)
Excess of expenses over revenues	**$**	**(1,676,578)**	$	(880,951)	$	(795,627)

Actual results compare unfavorably to budgeted amounts for the Hospital, due to actual revenues being $568,811 less than budgeted, while actual expenses were $226,816 more than budgeted. This results in a negative variance of $795,627 with excess of expenses over revenues being $1,676,578, as compared to budgeted excess of expenses over revenues of $880,951, as shown in Table 3.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the Hospital had $13,830,170 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic financial statements. In 2017, the Hospital purchased new assets costing $3,501,957.

Debt

At June 30, 2017, the Hospital had $95,686 in capital lease obligations and a $29,870,000 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.

During 2018, the Hospital will be reassessing the new and expanded service lines implemented during 2016 and 2017 as well as overall operating costs as it continues new facility construction.

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, 2017 and 2016

ASSETS	**2017**	**2016**
Current assets		
Cash and cash equivalents	**$ 95,050**	$ 1,881,655
Investment in certificates of deposit	**2,216,043**	2,195,096
Patient accounts receivable, net of estimated uncollectible accounts of approximately $1,711,000 and $2,070,000, respectively	**2,696,959**	2,203,038
Safety net care pool receivable	**407,668**	502,485
Estimated third-party payor settlement receivable	**-**	775,000
Grants receivable	**-**	35,111
Taxes receivable	**171,516**	131,269
Inventories	**460,662**	370,881
Prepaid expenses	**53,761**	111,328
Total current assets	**6,101,659**	8,205,863
Noncurrent assets		
Cash and cash equivalents, restricted as to use	**30,045,556**	31,183,234
Capital assets, net	**13,830,170**	11,474,796
Total noncurrent assets	**43,875,726**	42,658,030
Total assets	**$ 49,977,385**	$ 50,863,893
LIABILITIES AND NET POSITION		
Current liabilities		
Current maturities of loan payable and capital lease obligations	**$ 415,006**	$ 447,865
Accounts payable	**914,659**	317,636
Estimated third-party payor settlements payable	**200,000**	-
Accrued compensation and related liabilities	**797,848**	570,641
Accrued interest payable	**177,258**	-
Total current liabilities	**2,504,771**	1,336,142
Noncurrent liabilities		
Loan payable and capital lease obligations, net of current maturities	**30,592,927**	30,971,486
Total noncurrent liabilities	**30,592,927**	30,971,486
Total liabilities	**33,097,698**	32,307,628
Net position		
Net investment in capital assets	**12,867,793**	11,238,679
Unrestricted	**4,011,894**	7,317,586
Total net position	**16,879,687**	18,556,265
Total liabilities and net position	**$ 49,977,385**	$ 50,863,893

See accompanying notes to basic financial statements.

Sierra Vista Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of $3,498,134 and $2,721,679, respectively	**$ 19,400,087**	$ 18,842,823
Safety net care pool	**2,110,358**	1,565,978
Grants	**67,900**	95,717
Other	**150,767**	134,389
Total operating revenues	**21,729,112**	20,638,907
Operating expenses		
Salaries and wages	**11,159,028**	9,729,325
Employee benefits	**1,984,056**	1,649,436
Professional fees	**5,433,306**	4,689,144
Supplies	**2,165,953**	1,877,156
Utilities	**396,486**	344,105
Repairs and maintenance	**471,461**	406,510
Leases and rentals	**115,721**	134,005
Depreciation and amortization	**1,146,458**	885,384
Insurance	**426,602**	332,310
Other	**1,577,248**	812,568
Total operating expenses	**24,876,319**	20,859,943
Operating loss	**(3,147,207)**	(221,036)
Nonoperating revenues (expenses)		
Gross receipts tax revenue	**574,401**	490,691
Mill levy revenue	**634,769**	626,186
Contributions	**8,680**	5,000
Interest income	**27,313**	30,283
Interest expense	**(7,639)**	(5,323)
Debt issuance costs	**-**	(179,157)
Total nonoperating revenues, net	**1,237,524**	967,680
Excess of revenues over expenses (expenses over revenues) before capital contributions	**(1,909,683)**	746,644
Capital contributions from Sierra County	**-**	4,817,999
Capital grants and contributions	**233,105**	370,692
Change in net position	**(1,676,578)**	5,935,335
Net position, beginning of year	**18,556,265**	12,620,930
Net position, end of year	**$ 16,879,687**	$ 18,556,265

See accompanying notes to basic financial statements.

Sierra Vista Hospital
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 22,086,341**	$ 18,548,085
Receipts from grants	**103,011**	137,376
Receipts from other revenue	**150,767**	134,389
Electronic health records system incentive	**-**	67,904
Payments to and on behalf of employees	**(12,915,877)**	(11,551,498)
Payments to suppliers and contractors	**(10,021,968)**	(8,834,096)
Net cash used in operating activities	**(597,726)**	(1,497,840)
Cash flows from noncapital financing activities		
Contributions	**8,680**	5,000
Receipts from gross receipts tax	**559,451**	486,391
Receipts from mill levies	**609,472**	590,033
Net cash provided by noncapital financing activities	**1,177,603**	1,081,424
Cash flows from capital and related financing activities		
Principal payments on capital lease obligations	**(168,332)**	(35,663)
Principal payments on New Mexico Finance Authority Loan Agreement	**(350,000)**	-
Interest paid	**(7,639)**	(5,323)
Debt issuance costs paid	**-**	(179,157)
Capital grants and contributions	**233,105**	-
Proceeds from issuance of long-term debt	**-**	31,298,188
Purchase of capital assets	**(3,217,660)**	(3,044,456)
Net cash provided by (used in) capital and related financing activities	**(3,510,526)**	28,033,589
Cash flows from investing activities		
Purchase of investments	**(20,947)**	(21,109)
Interest received	**27,313**	30,283
Net cash provided by investing activities	**6,366**	9,174
Net increase in cash and cash equivalents	**(2,924,283)**	27,626,347
Cash and cash equivalents, beginning of year	**33,064,889**	5,438,542
Cash and cash equivalents, end of year	**$ 30,140,606**	$ 33,064,889

See accompanying notes to basic financial statements.

Sierra Vista Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	**$ 95,050**	$ 1,881,655
Cash and cash equivalents, restricted as to use for capital improvements	**30,045,556**	31,183,234
Total cash and cash equivalents	**$ 30,140,606**	$ 33,064,889
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	**$ (3,147,207)**	$ (221,036)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	**1,146,458**	885,384
Provision for bad debts	**3,498,134**	2,721,679
Decrease (increase) in assets:		
Receivables:		
Patient accounts	**(3,992,055)**	(2,701,371)
Safety net care pool	**94,817**	(126,362)
Estimated third-party payor settlements	**200,000**	-
Electronic health records system incentive	**-**	67,904
Grants	**35,111**	41,659
Inventories	**(89,781)**	(14,138)
Prepaid expenses	**57,567**	(60,583)
Increase (decrease) in liabilities:		
Accounts payable	**597,023**	(163,577)
Estimated third-party payor settlements payable	**775,000**	(1,754,662)
Accrued compensation and related liabilities	**227,207**	(172,737)
Net cash used in operating activities	**$ (597,726)**	$ (1,497,840)

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.

During 2017, the Hospital entered into a capital lease obligation in the amount of $142,855 to finance new medical equipment.

See accompanying notes to basic financial statements.

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 percent, City – 40 percent, Elephant Butte – 15 percent, and the Village – 5 percent.

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 included as a component unit. The Organization made contributions to the Hospital in the amounts of $18,000 and $199,000 during fiscal years 2017 and 2016, respectively. The Hospital provided support to the Organization of approximately $0 and $59,000 during fiscal years 2017 and 2016, 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 included as a component unit. The Foundation made contributions to the Hospital in the amounts of $0 and $155,000 during fiscal years 2017 and 2016, respectively.

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.

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, 2017.

Assets restricted as to use – Assets restricted as to use include assets restricted and held in trust by the New Mexico Finance Authority for construction, debt service, and debt service reserve.

Reclassifications – Certain reclassifications have been made to the 2016 financial statements to conform with the classifications used in the 2017 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through October 11, 2017, the date on which the financial statements were available to be issued.

2. Deposits and Investments:

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital'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, 2017 and 2016, the Hospital had $325,228 and $442,221, respectively, held at the Bank of the Southwest.

At June 30, 2017 and 2016, the Hospital had $2,536 and $1,731,284, respectively, held in a money market account with Citizens Bank.

At June 30, 2017 and 2016, the Hospital had $2,216,043 and $2,195,096, 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:

	2017					
		Investment Maturities (in Years)				
	Fair Value	Less Than One	One to Five	Six to Ten	More than Ten	Investment Ratings
Certificates of deposit	$ 2,216,043	$ -	$ 2,216,043	$ -	$ -	Not applicable
Total investments	**$ 2,216,043**	**$ -**	**$ 2,216,043**	**$ -**	**$ -**	

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

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 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.

3. Cash and Cash Equivalents Restricted as to Use:

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

	2017	2016
Restricted under New Mexico Finance Authority loan agreement for debt service reserve	**$ 2,023,608**	$ 2,000,200
Restricted under New Mexico Finance Authority loan agreement for debt service	**243,348**	20,816
Restricted under New Mexico Finance Authority loan agreement for capital improvements	**27,778,600**	29,162,218
Total cash and cash equivalents restricted as to use	**$ 30,045,556**	$ 31,183,234

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

4. Patient Accounts Receivable (continued):

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

		2017		2016
Receivable from patients and their insurance carriers	**$**	**2,759,061**	$	2,714,535
Receivable from Medicare		**701,811**		783,027
Receivable from Medicaid		**947,361**		775,831
Total patient accounts receivable		**4,408,233**		4,273,393
Less allowance for uncollectible accounts		**1,711,274**		2,070,355
Net patient accounts receivable	**$**	**2,696,959**	$	2,203,038

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 $635,000 and $626,000 in 2017 and 2016, 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 $574,000 and $491,000 in 2017 and 2016, respectively.

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:

	2017				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Capital assets not being depreciated					
Construction in progress	$ 125	$ 2,509,251	$ (125)	$ -	**$ 2,509,251**
Land	506,649	-	-	-	**506,649**
Total capital assets not being depreciated	506,774	2,509,251	(125)	-	**3,015,900**
Capital assets being depreciated					
Buildings and improvements	9,978,499	100,803	-	-	**10,079,302**
Equipment	7,782,439	891,903	-	-	**8,674,342**
Total capital assets being depreciated	17,760,938	992,706	-	-	**18,753,644**
Less accumulated depreciation for					
Buildings and improvements	(1,825,047)	(414,273)	-	-	**(2,239,320)**
Equipment	(4,967,869)	(732,185)	-	-	**(5,700,054)**
Total accumulated depreciation	(6,792,916)	(1,146,458)	-	-	**(7,939,374)**
Total capital assets being depreciated, net	10,968,022	(153,752)	-	-	**10,814,270**
Capital assets, net of accumulated depreciation	**$ 11,474,796**	**$ 2,355,499**	**$ (125)**	**$ -**	**$ 13,830,170**

6. Capital Assets (continued):

	2016				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Capital assets not being depreciated					
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**
Capital assets being depreciated					
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**
Less accumulated depreciation for					
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**
Capital assets, net of accumulated depreciation	**$ 4,674,966**	**$ 6,799,830**	**$ -**	**$ -**	**$ 11,474,796**

Construction in progress as of June 30, 2017, consisted of costs related to the construction of the new hospital building. Estimated costs to complete the project are $30 million and the building is expected to be completed in September 2018.

Interest costs were $1,275,904 and $5,323 in 2017 and 2016, respectively of which $1,268,265 and $0 were capitalized in 2017 and 2016, respectively.

Interest earned was $236,710 and $30,283 in 2017 and 2016, respectively of which $209,397 and $0 were capitalized in 2017 and 2016, respectively.

7. Noncurrent Liabilities:

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

	2017				
	Beginning Balance	**Additions**	**Decreases**	**Ending Balance**	**Amounts Due Within One Year**
New Mexico Finance Authority Loan Agreement	$ 30,220,000	$ -	$ (350,000)	$ 29,870,000	$ 365,000
New Mexico Finance Authority premium	1,078,188	-	(35,940)	1,042,248	-
Capital lease obligations	121,163	142,855	(168,332)	95,686	50,006
Compensated absences	301,389	886,929	(761,571)	426,747	426,747
Total noncurrent liabilities	**$ 31,720,740**	**$ 1,029,784**	**$ (1,315,843)**	**$ 31,434,681**	**$ 841,753**

	2016				
	Beginning Balance	**Additions**	**Decreases**	**Ending Balance**	**Amounts Due Within One Year**
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
Total noncurrent liabilities	**$ 421,661**	**$ 32,060,405**	**$ (761,326)**	**$ 31,720,740**	**$ 749,254**

During 2015, the Hospital entered into two capital lease obligations at varying rates of imputed interest from 4.1 percent to 4.6 percent during the fiscal year. The leases are collateralized by leased equipment. During 2017, the Hospital entered into one capital lease obligation with a 4.9 percent interest rate. At June 30, 2017, the capitalized costs and accumulated amortization of the capital lease obligations were $323,010 and $92,051, respectively.

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

Years Ending June 30,	**Principal**	**Interest**	**Total**
2018	$ 50,006	$ 2,579	$ 52,585
2019	39,930	1,057	40,987
2020	5,750	49	5,799
	$ 95,686	**$ 3,685**	**$ 99,371**

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 percent, through May 1, 2046, as follows:

Years Ending June 30,	Principal	Interest	Total
2018	$ 365,000	$ 1,063,550	$ 1,428,550
2019	380,000	1,048,950	1,428,950
2020	400,000	1,029,950	1,429,950
2021	415,000	1,009,950	1,424,950
2022	440,000	989,200	1,429,200
2023-2027	2,545,000	4,594,250	7,139,250
2028-2032	3,150,000	3,986,800	7,136,800
2033-2037	6,930,000	3,065,200	9,995,200
2038-2042	7,970,000	1,822,800	9,792,800
2043-2046	7,275,000	553,650	7,828,650
	$ 29,870,000	**$ 19,164,300**	**$ 49,034,300**

The New Mexico Finance Authority (NMFA) loan agreement requires that the Hospital have a coverage ratio of 130 percent. The coverage ratio requires the sum of pledged revenue, which includes all operating revenue and all tax receipts, to be 130 percent of operating expenses, excluding depreciation, and maximum aggregate annual debt service requirement. The Hospital has not met the coverage ratio 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 a hospital 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 percent 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.

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 who 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 2017 or 2016. 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:

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 5,830,243**	$ 5,844,919
Medicaid/Centennial Care	**5,954,567**	6,639,085
Other third-party payors	**9,923,659**	8,292,122
Patients	**1,236,358**	999,120
	22,944,827	21,775,246
Less:		
Charity care	**46,606**	210,744
Provision for bad debts	**3,498,134**	2,721,679
Net patient service revenue	**$ 19,400,087**	$ 18,842,823

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 decreased by approximately $45,000 in 2017, and increased approximately $69,000 in 2016, 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, 2017 and 2016, were approximately $32,000 and $135,000, respectively.

10. Safety Net Care Pool:

The Hospital receives funding for uncompensated care costs through the State of New Mexico's safety net care pool program. The Hospital receives interim quarterly payments subject to the settlement based on actual uncompensated care costs. The Hospital estimates the settlement amounts for each calendar year. There is a reasonable possibility that recorded estimates will change by a material amount. The safety net care pool funding increased by approximately $383,000 and $150,000 in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

11. 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 $142,000 and $141,000 during the years ended June 30, 2017 and 2016, respectively. The Hospital will match dollar per dollar up to the first three percent of each employee's contribution. The Hospital's contributions to the Plan were approximately $87,000 and $36,000 for the years ended June 30, 2017 and 2016, 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.

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:

	2017	**2016**
Medicare	**18 %**	26 %
Medicaid/Centennial Care	**24**	18
Patients	**19**	30
Commercial and other	**39**	26
	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 $54,000 and $25,000 in the fiscal years ended June 30, 2017 and 2016, respectively.

The Hospital purchased electricity from the City of approximately $236,000 and $214,000 during the fiscal years ended June 30, 2017 and 2016, respectively.

The Hospital purchased newspapers and advertising from Sierra County Sentinel of approximately $16,000 during the fiscal year ended June 30, 2017. Sierra County Sentinel is owned by a Board member.

SUPPLEMENTAL INFORMATION

Sierra Vista Hospital
Schedule of Pledged Collateral
June 30, 2017

	Bank of the Southwest	Citizens Bank	First Savings Bank
Deposits at June 30, 2017	$ 325,228	$ 2,536	$ 2,216,043
Less: FDIC coverage	(250,000)	(250,000)	(250,000)
Uninsured public funds	75,228	(247,464)	1,966,043
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	575,000	2,561,480	3,170,729
Total uninsured and uncollateralized public funds	$ (499,772)	$ (2,808,944)	$ (1,204,686)
50% pledged collateral requirement per statute	$ 37,614	$ -	$ 983,022
Total pledged collateral	575,000	2,561,480	3,170,729
Pledged collateral over the requirement	**$ 537,386**	**$ 2,561,480**	**$ 2,187,707**

Pledged collateral at June 30, 2017, consists of the following:

	Fair Value		
Security	**Bank of the Southwest**	**Citizens Bank**	**First Savings Bank**
FHLB letter of credit, matures December 12, 2016	$ 575,000		
FFCB letter of credit, matures April 1, 2021		$ 1,020,000	
FHLB letter of credit, matures December 9, 2022		1,541,480	
MBS FHLMC Gold 10Yr, CUSIP #31306XQD8, matures September 1, 2022			$ 26,980
MBS FHLMC Gold 10Yr, CUSIP #31307BJV3, matures March 1, 2023			54,918
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			52,730
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			41,455
MBS FHLMC Gold 10Yr, CUSIP #31307BJW1, matures March 1, 2023			82,909
MBS FNMA 15Yr, CUSIP #3138E4X71, matures February 1, 2027			46,718
MBS FNMA 15Yr, CUSIP #36176XBY4, matures February 15, 2027			111,551
MBS FNMA 15Yr, CUSIP #36176XBY4, matures February 15, 2027			37,184
MBS FHLMC 15Yr, CUSIP #3128MDEC3, matures May 1, 2027			47,008
MBS GNR 15Yr, CUSIP #38378HAU0, matures August 20, 2027			156,840
MBS GNR 15Yr, CUSIP #38378HAU0, matures August 20, 2027			78,420
MBS FNMA 15Yr, CUSIP #3138MJWW5, matures November 1, 2027			126,620
MBS FNMA 15Yr, CUSIP #3138MJWW5, matures November 1, 2027			101,296
MBS FHR 10Yr, CUSIP #3137AWKN4, matures November 15, 2027			97,065
MBS FNMA 15Yr, CUSIP #3138EKJA4, matures January 1, 2028			81,533
MBS FNMA 15Yr, CUSIP #3138EKJA4, matures January 1, 2028			81,533
MBS FHLMC Gold 15Yr, CUSIP #31307DB62, matures June 1, 2028			140,372
MBS FHLMC Gold 15Yr, CUSIP #3128ME4V0, matures January 1, 2030			189,510
MBS FHLMC Gold 15Yr, CUSIP #3128ME4V0, matures January 1, 2031			236,887
MBS FHLMC 15Yr CUSIP #3128MECV1, matures February 1, 2030			288,162
FHLMC 15Yr, CUSIP 3128ME4M0, matures May 15, 2032			142,613
FHR 4080 15 Yr, CUSIP 3137ARS72, matures May 15, 2032			205,326
GNR 2010-171 PA, CUSIP #38377NRJ5, matures March 16, 2038			56,480
GNR 2011-21 QC, CUSIP #38377TVG3, matures May 20, 2038			242,503
GNR 2011-21 FHR, CUSIP #3137AFGA4, matures July 15, 2040			186,012
GNR 2011-21 FHR, CUSIP #3137AFGA4, matures July 15, 2040			27,902
GNR 2011-21 FHR, CUSIP #3137BKWM8, matures May 15, 2044			230,202
Total pledged securities	**$ 575,000**	**$ 2,561,480**	**$ 3,170,729**

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, 2017

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	$ 294,784	$ -	$ (265,406)	$ 42,074	$ 71,452
Bank of the Southwest	SVH - savings	Savings	1	-	-	-	1
Bank of the Southwest	Payroll account	Interest bearing checking	26,326	-	(10,972)	-	15,354
Bank of the Southwest	Empe adv fund - chkg	Interest bearing checking	536	-	-	-	536
Bank of the Southwest	Bobbie West scholars	Savings	3,581	-	-	-	3,581
Citizens Bank	MM - Citizens bank	Money market	2,536	-	-	-	2,536
Cash on hand	Petty cash	Petty cash	1,590	-	-	-	1,590
Certificates of Deposit							
First Savings Bank	Investment - CD	Certificates of Deposit	125,704	-	-	-	125,704
First Savings Bank	CD - Investment	Certificates of Deposit	2,090,339	-	-	-	2,090,339
New Mexico Finance Authority	Reserve Fund	Money Market	2,023,608	-	-	-	2,023,608
New Mexico Finance Authority	Construction Fund	Money Market	27,778,600	-	-	-	27,778,600
New Mexico Finance Authority	Debt service	Money Market	243,348	-	-	-	243,348
Total deposits and investments			**$ 32,590,953**	**$ -**	**$ (276,378)**	**$ 42,074**	**$ 32,356,649**

See accompanying independent auditors' report.

Sierra Vista Hospital
Indigent Care Cost and Funding Report
Year Ended June 30, 2017

		For years ended June 30, 2017	2016	2015
A	**Funding for Indigent Care**			
A1	State appropriations specified for indigent care - Out of County Indigent Fund	$ -	$ -	$ -
A2	County indigent funds received	-	-	-
A3	Out of county indigent funds received	-	-	-
A4	Payments and copayments received from uninsured patients qualifying for indigent care	-	-	-
A5	Reimbursement received for services provided to patients qualifying for coverage under EMSA	-	-	-
A6	Charitable contributions received from donors that are designated for funding indigent care	-	-	-
	Other Sources			
A7	Other source 1 (if applicable)	-	-	-
	Total Funding for Indigent Care	-	-	-
B	Cost of Providing Indigent Care			
	Total cost of care for providing services to:			
B1	Uninsured patients qualifying for indigent care	29,638	133,126	104,120
B2	Patients qualifying for coverage under EMSA	-	-	-
B3	Cost of care related to patients portion of bill for insured patients qualifying for indigent care	-	-	-
B4	Direct costs paid to other providers on behalf of patients qualifying for indigent care	-	-	-
	Total Cost of Providing Indigent Care	29,638	133,126	104,120
	Shortfall of Funding for Indigent Care to Cost of Providing Indigent Care	**$ (29,638)**	**$ (133,126)**	**$ (104,120)**
C	Patient Receiving Indigent Care Services			
C1	Total number of patients receiving indigent care	28	83	126
C2	Total number of patients encounters receiving indigent care	34	118	174

	For years ended June 30, 2017	2016	2015
Uninsured patients qualifying for indigent care			
Charges for these patients	$ 43,586	$ 208,010	$ 192,814
Ratio of cost to charges	68%	64%	54%
Cost for uninsured patients qualifying for indigent care	**$** 29,638	**$** 133,126	**$** 104,120
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)			
Charges for these patients	$ -	$ -	$ -
Ratio of cost to charges	0%	0%	0%
Cost for patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	**$** -	**$** -	**$** -
Cost of care related to patient portion of bill for insured patients qualifying for indigent care			
Indigent care adjustments for these patients	$ -	$ -	$ -
Ratio of cost to charges	0%	0%	0%
Cost of care related to patients portion of bill for insured patients qualifying for indigent care	**$** -	$ -	**$** -
Direct costs paid to other providers on behalf of patients qualifying for indigent care			
Payments to other providers for care of these patients	$ -	$ -	$ -

See accompanying independent auditors' report.

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2017

	Actual	Original Approved Budget	Final Approved Budget	Variance with Final Budget - Over (Under)
Revenues				
Net patient service revenue	**$ 19,400,087**	$ 22,646,701	$ 21,980,722	$ (2,580,635)
Other	**150,767**	221,696	264,958	(114,191)
Nonoperating revenues (expenses) and other, net	**3,648,887**	1,092,317	1,522,872	2,126,015
Total revenues	**23,199,741**	23,960,714	23,768,552	(568,811)
Expenses				
Salaries, wages, and benefits	**13,143,084**	11,899,932	10,505,168	2,637,916
Other	**11,733,235**	10,821,857	14,144,335	(2,411,100)
Total expenses	**24,876,319**	22,721,789	24,649,503	226,816
Change in net position	**$ (1,676,578)**	$ 1,238,925	$ (880,951)	$ (795,627)

See accompanying independent auditor's 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, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated October 11, 2017. We also audited the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2017, presented as supplemental information as listed in the table of contents.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider deficiencies 2016-002, 2017-003 and 2017-004 described in the accompanying schedule of findings and responses to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2015-001, 2017-001, 2017-002, and 2017-005.

The Hospital's Responses to Findings

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 11, 2017

2015-001 Actual Expenditures Exceeded Budgeted Expenditures

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	In order to comply with Section 2.2.2.10 O (1) NMAC, actual expenditures cannot exceed budgeted expenditures at the fund level.
Condition	The Hospital's actual expenditures for fiscal year 2017 exceeded budgeted expenditures by $226,816. The Hospital had monitored actual to budget expenses throughout the year and had amended the budget once during the year. The Hospital did not monitor and amend the budget at year end.
Context	This finding appears to be an *isolated* problem.
Effect	The Hospital is not in compliance with Section 2.2.2.10 O (1) NMAC.
Cause	The Hospital did not amend its original budget to reflect additional expenses incurred.
Recommendation	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 Department of Finance and Administration (DFA) for approval.
Management's Response	The Hospital agrees with the recommendation and will monitor expenditures throughout the fiscal year and, if necessary, will submit an amended budget to the DFA for approval. The Chief Financial Officer will be responsible for monitoring expenses and submitting an amended budget to the Governing Board.

2016-002 Auditor – Detected Adjustments

	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness
Criteria	Timely and accurate information should be available to management and those charged with governance to make decisions.
Condition	A material audit adjustment ($301,389) was made to correct the allowance for uncollectible patient accounts receivable. The auditor-detected adjustments were fewer and of lesser magnitude than in the prior year.
Context	This finding appears to be an *isolated* problem.
Effect	There were material errors in the financial statements that were corrected through auditor proposed journal entries.
Cause	The Hospital had adjusted the allowance for uncollectible patient accounts receivable without a supporting methodology.
Recommendation	The Hospital should consistently use its methodology in estimating the allowance for uncollectible patient accounts receivable.
Management's Response	Effective with this audit, the Hospital has implemented an improved estimate method. The Chief Financial Officer will be responsible for the allowance for uncollectible patient accounts receivable.

2017-001 New Mexico Finance Authority Loan Agreement Coverage Ratio Not Met

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	The Hospital must pledge revenues in excess of expenses that are equal to or greater than the maximum aggregate annual debt service ($1,679,458).
Condition	The Hospital should remain in compliance with loan agreement covenants.
Context	This finding appears to be an *isolated* problem.
Effect	The New Mexico Finance Authority could place restrictions on the Hospital.
Cause	The Hospital operated at a loss during the year and therefore was not able to meet the covenant of the bond.
Recommendation	The Hospital should monitor operating results throughout the fiscal year to ensure it can meet the coverage ratio.
Management's Response	The Hospital is currently implementing a financial improvement process to improve compliance with this covenant. The Chief Financial Officer, along with the Chief Executive Officer and the Governing Board, will monitor the coverage ratio.

2017-002 No Physical Inventory of Capital Assets Performed

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	According to 12-6-10 NMSA 1978, the governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of property and equipment costing more than five thousand dollars ($5,000) and under the control of the governing authority. Upon completion, the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files.
Condition	There was no physical inventory of property and equipment performed by the Hospital during or subsequent to the year ended June 30, 2017.
Context	This finding appears to be an *isolated* problem.
Cause	There was no physical inventory of property and equipment performed by the Hospital.
Effect	Missing or disposed items of property and equipment may not become known and therefore not investigated or recorded. Property and equipment may be overstated.
Recommendation	The Hospital should perform a physical inventory of all property and equipment at least annually.
Management's Response	The Hospital will complete a physical inventory of capital assets prior to fiscal year end June 30, 2018. The Chief Financial Officer will be responsible for the annual physical inventory of capital assets.

2017-003 Control Environment

	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness
Criteria	The Governing Board should maintain effective oversight of the Hospital's financial reporting and operations. Governing Board bylaws require Governing Board approval for its contracts, facilities, and equipment acquisitions in excess of $20,000.
Condition	Contracts in excess of $20,000 were executed without Governing Board approval.
Context	This finding appears to be a *systemic* problem.
Cause	Inadequate internal control policies and procedures allowed contracts to be executed without the consent or input of the Governing Board.
Effect	Limited oversight of management increases the risk of fraud and misappropriation of assets.
Recommendation	The Governing Board should review and approve contracts, facilities, and equipment acquisitions in excess of $20,000.
Management's Response	The Governing Board will review and approve contracts, facilities, and equipment acquisitions in excess of $20,000. The Chief Executive Officer will be responsible for submitting contract, facilities, and equipment acquisitions in excess of $20,000 to the Governing Board.

2017-004 Expense Reports

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

Criteria

Expense reports should include the appropriate level of supporting documentation. The Chief Executive Officer's (CEO) expense reports should be approved by the Governing Board.

Condition

Expense reports were submitted with credit card receipts and credit card statements that did not provide sufficient information on the specific food and beverages and the nights of lodging. Expense reports were submitted without sufficient documentation of the attendees at meals and the meeting's purpose. Expense reports were submitted with first-class airfare. The CEO's expense report was not being reviewed and approved by a Governing Board member.

Context

This finding appears to be a *systemic* problem.

Cause

Inadequate Governing Board oversight allowed the CEO to act as his own reviewer and approver of expense reports.

Effect

Without adequate review and approval of expense reports, there is an increased risk of fraud and misappropriation of assets.

Recommendation

The Governing Board should review the CEO's expense reports. The Hospital should update expense report policies and procedures to prohibit use of credit card receipts and statements. Itemized meal and lodging receipts should be required. Policies and procedures for lost receipts and de minimis amounts should be developed.

Management's Response

The Governing Board will review and approve the CEO's expense reports.

The Chief Financial Officer will update the expense reimbursement process to require actual itemized receipts instead of credit card receipts and statements.

2017-005 Governmental Conduct Act

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	The Governmental Conduct Act requires that contracts with an employee should be disclosed to the Governing Board.
Condition	The Chief Financial Officer was paid $10,000 during fiscal year 2017 for rental of a duplex unit to the Hospital, without this arrangement being disclosed to the Governing Board.
Context	This finding appears to be an *isolated* problem.
Effect	The Hospital is not in compliance with the Governmental Conduct Act.
Cause	Inadequate internal controls allowed this arrangement to be executed without disclosure to the Governing Board.
Recommendation	Employees should receive periodic notice regarding arrangements that should be disclosed.
Management's Response	The Hospital agrees with this recommendation. The Chief Executive Officer will be responsible for developing policies and procedures.

Sierra Vista Hospital
Schedule of Prior Year Findings
Year Ended June 30, 2017

Prior-Year Number	Description	Current Status
2015-001	Actual Expenditures Exceeded Budgeted Expenditures – Compliance Finding	Repeated as 2015-001
2016-002	Auditor – Detected Adjustments	Repeated as 2016-002

Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2017

An exit conference was held October 10, 2017, with the following individuals to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Greg D' Amour	Governing Board, Chair
Thomas Dandridge	Chief Executive Officer
William Donatelli	QHR
Chun-Ming Huang	Assistant Chief Financial Officer/Controller
Tom Dingus	Dingus, Zarecor & Associates PLLC

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