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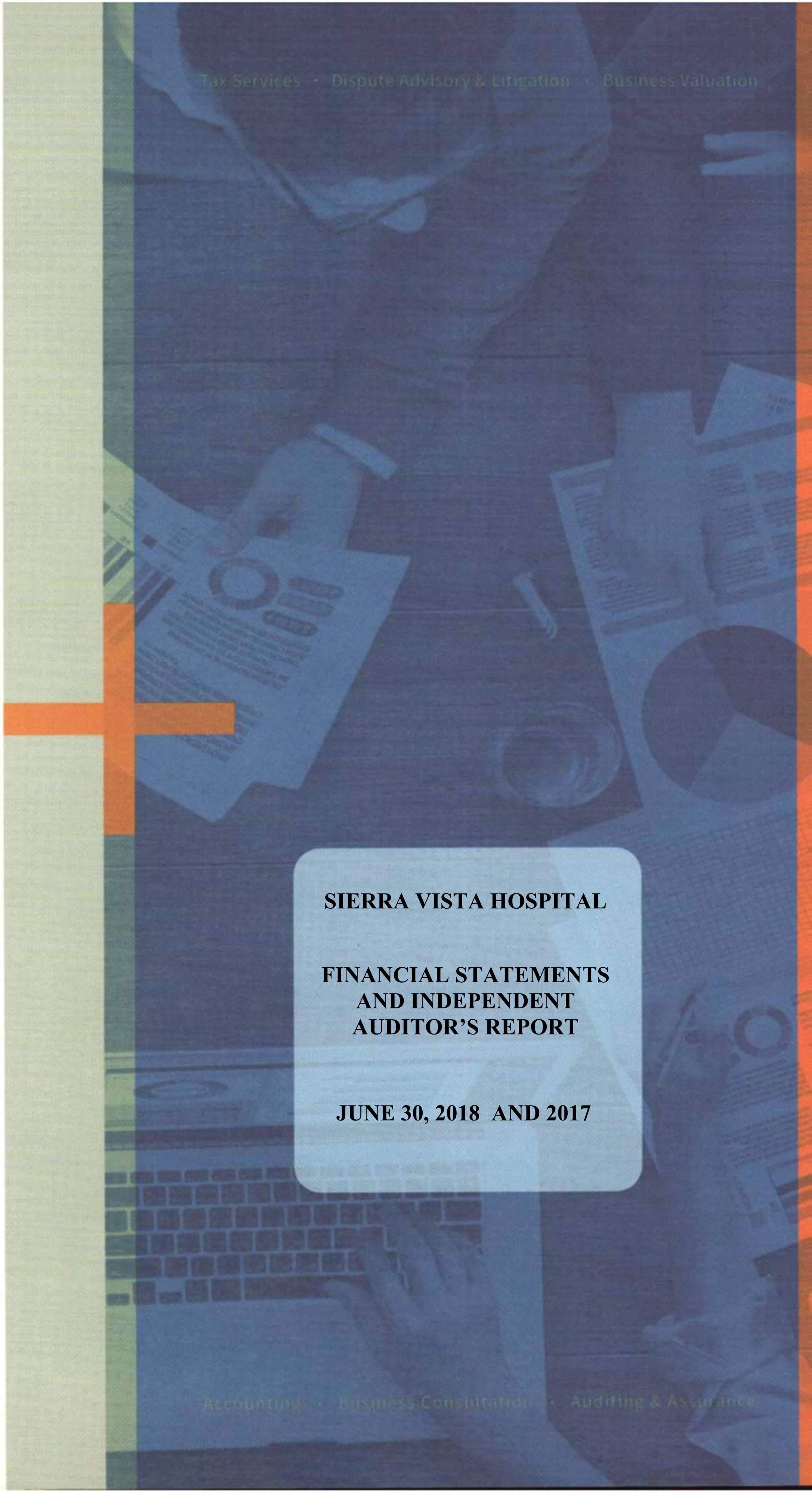

SIERRA VISTA HOSPITAL

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

SIERRA VISTA HOSPITAL

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SIERRA VISTA HOSPITAL

GOVERNING BOARD AND PRINCIPAL EMPLOYEES

June 30, 2018

OFFICIAL ROSTER

Principal Employees
- David Faulkner, Interim Chief Executive Officer
- Stephen Huey, Interim Chief Finance Officer

FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Directors
Sierra Vista Hospital
Truth or Consequences, New Mexico
And Brian S. Colón, State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Sierra Vista Hospital (the "Hospital"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards 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 auditor's 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 auditor considers 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type of activities of Hospital as of June 30, 2018 and 2017, and the changes in its financial position, and where applicable cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Hospital, as of and for the year ended June 30, 2017, were audited by other auditors whose report, dated October 11, 2017 expressed an unmodified opinion on those statements.

Required Supplementary Information

Management has omitted Management's Discussion & Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Hospital's financial statements as a whole. The accompanying Schedules of Pledged Collateral, Schedules of Individual Deposit and Investment Accounts, Schedule of Indigent Care Cost and Funding Report and Schedule of Revenues and Expenses - Budget to Actual, as required by Section 2.2.2 NMAC, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2019, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ricci & Company LLC

Albuquerque, New Mexico
February 14, 2019

FINANCIAL STATEMENTS

SIERRA VISTA HOSPITAL
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

ASSETS

	2018	2017
Current Assets		
Cash and cash equivalents	$ 2,968,818	$ 95,050
Investment in certificates of deposit	-	2,216,043
Patient accounts receivable, net of allowances	2,236,070	2,696,959
Safety net care pool receivable	718,868	407,668
Inventories	489,839	460,662
Taxes receivable	82,967	171,516
Prepaid expenses and other current assets	51,545	53,761
Total current assets	6,548,107	6,101,659
Assets limited as to use	21,534,973	30,045,556
Property and Equipment		
Land	506,649	506,649
Building and improvements	10,079,302	10,079,302
Fixed and major moveable equipment	8,718,896	8,674,342
Construction in progress	11,449,785	2,509,251
	30,754,632	21,769,544
Less accumulated depreciation	(9,034,855)	(7,939,374)
Total property and equipment	21,719,777	13,830,170
Total assets	$ 49,802,857	$ 49,977,385

LIABILITIES AND NET ASSETS

	2018	2017
Current Liabilities		
Current maturities of capital leases	$ 39,930	$ 50,006
Current maturities of debt borrowings	380,000	365,000
Accounts payable and accrued expenses	1,326,957	914,659
Estimated third party payor settlements	1,739,000	200,000
Accrued payroll and related liabilities	827,498	797,848
Accrued interest	174,826	177,258
Total current liabilities	4,488,211	2,504,771
Long term liabilities		
Capital leases, net of current maturities	5,748	45,680
Debt borrowings, net of current maturities	30,131,310	30,547,247
Total liabilities	34,625,269	33,097,698
Net Position		
Net Investment in Capital Assets	(8,791,533)	(26,462,288)
Unrestricted	2,434,148	13,296,419
Restricted	21,534,973	30,045,556
Total net position	15,177,588	16,879,687
Total liabilities and net position	$ 49,802,857	$ 49,977,385

See Notes to Financial Statements.

SIERRA VISTA HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenue		
Net patient service revenue, net of provision for bad debts of $2,658,352 and $3,498,134, respectively	**$ 17,400,972**	$ 19,400,087
Safety net care pool	**3,461,242**	2,110,358
Grants	**115,778**	67,900
Other revenues, gains, and other support:	**386,513**	150,767
Total operating revenues	**21,364,505**	21,729,112
Operating Expenses		
Salaries and wages	**10,241,484**	11,159,028
Employee benefits	**1,999,010**	1,984,056
Professional fees	**6,945,105**	5,433,306
Supplies	**1,761,534**	2,165,953
Utilities	**358,706**	396,486
Repairs and maintenance	**398,612**	471,461
Leases and rentals	**143,975**	115,721
Depreciation and amortization	**1,107,666**	1,146,458
Insurance	**408,638**	426,602
Other operating expenses	**597,874**	1,577,248
Total operating expenses	**23,962,604**	24,876,319
Operating loss	**(2,598,099)**	(3,147,207)
Non Operating Revenue (expense)		
Gross receipts tax revenue	**340,588**	574,401
Mill levy revenue	**564,736**	634,769
Contributions	**2,243**	8,680
Loss on disposal of fixed assets	**(14,061)**	-
Interest income	**12,668**	27,313
Interest expense	**(17,974)**	(7,639)
Total non operating revenues, net	**888,200**	1,237,524
Excess of revenues over expenses (expenses over revenues) before capital contributions	**(1,709,899)**	(1,909,683)
Capital grants and contributions	**7,800**	233,105
Change in Net Position	**(1,702,099)**	(1,676,578)
Net Position, Beginning of Year	**16,879,687**	18,556,265
Net Position, End of Year	**$ 15,177,588**	$ 16,879,687

See Notes to Financial Statements.

SIERRA VISTA HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 21,011,903	$ 22,086,341
Receipts from grants	115,778	103,011
Receipts from other revenue	388,756	150,767
Payments to and on behalf of employees	(10,211,834)	(12,915,877)
Payments to suppliers and contractors	(10,689,117)	(10,021,968)
Net cash provided (used) by operating activities	615,486	(597,726)
Cash flows from noncapital financing activities		
Contributions	7,800	8,680
Receipts from gross receipts tax	429,137	559,451
Receipts from mill levies	564,736	609,472
Net cash provded by noncapital financing activities	1,001,673	1,177,603
Cash flows from capital and related financing activies		
Principal payments on capital lease obligations	(50,008)	(168,332)
Principal payments on New Mexico Finance Authority Loan Agreement	(364,999)	(350,000)
Interest paid	(20,406)	(7,639)
Capital grants and contributions	-	233,105
Net cash used by capital and related financing activities	(435,413)	(292,866)
Cash Flows From Investing Activities		
Proceeds from sale of investments	2,216,043	-
Purchase of capital assets	(9,047,272)	(3,217,660)
Purchase of investments Interest received	-	(20,947)
	12,668	27,313
Net cash (used) provided by investing activities	(6,818,561)	6,366
Net decrease in cash and cash equivalents	(5,636,815)	(2,924,283)
Cash and cash equivalents, beginning of year	30,140,606	33,064,889
Cash and cash equivalents, end of year	$ 24,503,791	$ 30,140,606

See Notes to Financial Statements.

SIERRA VISTA HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of cash and		
Cash equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	$ **2,968,818**	$ 95,050
Cash and cash equivalents,		
restricted as to use for capital improvements	**21,534,973**	30,045,556
Total cash and cash equivalents	**$ 24,503,791**	$ 30,140,606
Reconcilliation of operating loss to net cash used in Operating activities		
Operating loss	$ **(2,598,099)**	$ (3,147,207)
Adjustments to reconcile operating loss to net		
cash provided (used) by operating activities		
Depreciation and amortization	**1,107,666**	1,146,458
Provision for bad debts	**2,658,352**	3,498,134
Decrease (increase) in assets:		
Receivables:		
Patient accounts	**(2,817,620)**	(3,992,055)
Safety net care pool	**311,200**	94,817
Estimated third-party payor settlements	**-**	200,000
Grants	**-**	35,111
Inventories	**(29,177)**	(89,781)
Prepaid Expenses	**2,216**	57,567
Increase (decrease) in liabilities:		
Accounts payable	**412,298**	597,023
Estimated third-party payor settlement payable	**1,539,000**	775,000
Accrued compensation and related liabilities	**29,650**	227,207
Net cash provided (used) by operating activities	**$ 615,486**	$ (597,726)

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 power 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.

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 $0 and $18,000 during fiscal years 2018 and 2017, respectively. The Hospital provided support to the Organization of approximately $0 and $0 during fiscal years 2018 and 2017, 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 $60,000 and $0 during fiscal years 2018 and 2017, respectively.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units. The Hospital does not have any component units.

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 for purposes of the Statement of Cash Flows 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.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018.

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 2017 financial statements to conform with the classifications used in the 2018 financial statements, with no effect on previously reported change in net position.

NOTE 2. CASH, CASH EQUIVALENTS AND ASSETS LIMITED AS TO USE

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.

NOTE 2. CASH, CASH EQUIVALENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

At June 30, 2018 and 2017, the Hospital had $2,852,026 and $91,644 respectively, held at the Bank of the Southwest.

At June 30, 2018 and 2017, the Hospital had $112,798 and $0, respectively, held at US Bank.

At June 30, 2018 and 2017, the Hospital had $2,541 and $2,536, respectively, held in a money market account with Citizens Bank.

At June 30, 2018 and 2017, the Hospital had $0 and $2,216,043, 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 composition of cash and cash equivalents restricted as to use was as follows:

	2018	2017
Restricted under New Mexico Finance Authority loan agreement for debt service reserve	$ 1,700,959	$ 2,023,608
Restricted under New Mexico Finance Authority loan agreement for debt service	734	243,348
Restricted under New Mexico Finance Authority loan agreement for capital improvements	19,833,280	27,778,600
Total cash and cash equivalents restricted as to use	**$ 21,534,973**	$ 30,045,556

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's practice is to invest in certificates of deposits with maturities of less than five years.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer.

NOTE 2. CASH, CASH EQUIVALENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

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 1 input).

The pledged collateral for the funds held by the New Mexico Finance Authority (see Note 7) 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.

NOTE 3. NET PATIENT SERVICE RECEIVABLE

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability 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 write-offs from third-party payors.

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

NOTE 3. NET PATIENT SERVICE RECEIVABLE (CONTINUED)

		2018		2017
Receivable from patients and their insurance carriers	$	**2,075,881**	$	2,759,061
Receivable from Medicare		**1,177,306**		701,811
Receivable from Medicaid		**672,849**		947,361
Total patient accounts receivable		**3,926,036**		4,408,233
Less: allowance for uncollectible accounts		**(1,689,966)**		(1,711,274)
Net patient accounts receivable	$	**2,236,070**	$	2,696,959

NOTE 4. CONCENTRATIONS OF CREDIT 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

Medicare	31 %	18 %
Medicaid/Centennial Care	23	24
Patients	14	19
Commercial and other	32	39
	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.

NOTE 5. PROPERTY AND EQUIPMENT

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

NOTE 5. PROPERTY AND EQUIPMENT (CONTINUED)

Capital asset activity of the Hospital for the years ended June 30 was as follows:

	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Construction in progress	$ 2,509,251	$ 8,940,534	$ -	$ -	$ 11,449,785
Land	506,649	-	-	-	506,649
Total capital assets not being depreciated	3,015,900	8,940,534	-	-	11,956,434
Capital assets being depreciated					
Buildings and Improvements	10,079,302	-	-	-	10,079,302
Equipment	8,674,342	70,800	26,246		8,718,896
Total capital assets being depreciated	18,753,644	70,800	26,246	-	18,798,198
Less accumulated depreciation for					
Buildings and improvements	2,239,320	409,341	-	-	2,648,661
Equipment	5,700,054	698,325	12,186	-	6,386,193
Total capital assets being depreciated	7,939,374	1,107,667	12,186	-	9,034,855
Total capital assets being depreciated, net	10,814,270	(1,036,867)	14,060	-	9,763,343
Capital assets, net of accumulated depreciation	13,830,170	7,903,667	14,060	-	21,719,777

	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 capital assets being depreciated	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

NOTE 5. PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress as of June 30, 2018, consisted of costs related to the construction of the new hospital building.

Interest costs were $620,404 and $1,275,904 in 2018 and 2017, respectively of which $620,404 and $1,268,265 were capitalized in 2018 and 2017, respectively.

Interest earned was $296,751 and $236,710 in 2018 and 2017, respectively of which $296,751 and $209,397 were capitalized in 2018 and 2017, respectively.

NOTE 6. LIABILITIES

Long term debt. A schedule of changes in the Hospital's long term debt follows:

2018

	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
New Mexico Finance Authority Loan Agreement	$ 29,870,000		$ (365,000)	$ 29,505,000	$ 380,000
New Mexico Finance Authority premium	1,042,248		(35,938)	1,006,310	-
Capital lease obligations	95,686		(50,008)	45,678	39,930
Total noncurrent liabilities	**$ 31,007,934**	**$ -**	**$ (450,946)**	**$ 30,556,988**	**$ 419,930**

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	121,164	142,855	(168,333)	95,686	50,006
Total noncurrent liabilities	**$ 31,419,352**	**$ 142,855**	**$ (554,273)**	**$ 31,007,934**	**$ 415,006**

NMFD Loan. Sierra County and various municipalities within Sierra County have pledged revenues from gross receipts taxes to cover debt service.

NOTE 6. LIABILITIES (CONTINUED)

Accrued Compensated Absences. Accumulated unpaid vacation is accrued when incurred. Employees entitled to earn vacation pay earn it at various rates based on length of employment. Accrued compensated absences are considered to be current liabilities.

2018

Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
$ 426,747	$ 522,153	$ (628,576)	$ 320,324	$ 320,324

2017

Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
$ 301,389	$ 886,929	$ (761,571)	$ 426,747	$ 426,747

Capital Leases. The Hospital has entered into two capital lease obligations at varying rates of imputed interest from 3.5 percent to 4.1 percent during the fiscal year. The leases are collateralized by leased equipment. During. At June 30, 2018, the capitalized costs and accumulated amortization of the capital lease obligations were $214,392 and $147,021, respectively.

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

Years Ending June 30,	Principal	Interest	Total
2019	$ 39,930	$ 1,057	$40,987
2020	5,748	49	5,797
	$ 45,678	**$1,106**	**$ 46,784**

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
2019	$ 380,000	$ 1,016,344	$ 1,396,344
2020	402,500	997,558	1,400,058
2021	419,166	977,838	1,397,004
2022	443,334	957,196	1,400,530
2023	464,166	935,078	1,399,244
2024-2028	2,684,167	4,320,824	7,004,991
2029-2033	3,971,667	3,718,330	7,689,997
2034-2038	7,185,833	2,670,842	9,856,675
2039-2043	8,250,833	1,491,228	9,742,062
2044-2046	5,303,334	297,468	5,600,801
	$29,505,000	**$17,382,706**	**$46,887,705**

NOTE 6. LIABILITIES (CONTINUED)

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.

NOTE 7. 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 2018 or 2017.

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:

	2018	2017
Patient service revenue (net of contractual adjustments and		
Medicare	$ 5,039,685	$ 5,830,243
Medicaid/Centennial Care	5,147,151	5,954,567
Other third-party payors	8,573,101	9,923,659
Patients	1,069,577	1,236,358
	19,829,514	22,944,827
Less:		
Charity care	(367)	(46,606)
Provision for bad debts	(2,428,175)	(3,498,134)
Net patient service revenue	**$ 17,400,972**	**$ 19,400,087**

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:

NOTE 7. NET PATIENT SERVICE REVENUE (CONTINUED)

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 $1,999,000 in 2018, and decreased by approximately $45,000 in 2017, 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, 2018 and 2017, were approximately $4,451 and $46,606, respectively.

NOTE 8. SAEFTY 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 $1,350,000 and $383,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

NOTE 9. 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 $565,000 and $635,000 in 2018 and 2017, 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 $341,000 and $574,000 in 2018 and 2017, respectively.

NOTE 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 $148,000 and $142,000 during the years ended June 30, 2018 and 2017, 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 $63,000 and $87,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11. 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.

Construction in Process **–** The Hospital has renovation project in process at June 30, 2018 worth $30,220,000. The project will be completed at a future date.

NOTE 11. CONTINGENCIES (CONTINUED)

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 all 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.

NOTE 12. SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through February 14, 2019, the date the financial statements are issued. The management has renegotiated with NMFA and received a resolution to decrease the principal of the construction loan to $25,375,547, starting November 30, 2018.

NOTE 13. RECENT GASB PRONOUNCEMENTS

In August 2018, the GASB issued Statement No. 90, Majority Interests in an amendment of GASB Statements No. 14 and No. 6. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the Hospital.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement will be implemented in a subsequent period.

In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement

NOTE 13. RECENT GASB PRONOUNCEMENTS (CONTINUED)

applies to notes to financial statements of all periods presented. This statement will be implemented in a subsequent period.
In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Hospital will implement in a subsequent period.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the Hospital.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the Hospital.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the Hospital.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. Hospital does not have any capital assets that have asset retirement obligations and will not early implement.

In March 2016, the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. This statement is not applicable to the Hospital.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This statement is not applicable to the Hospital.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (inter-period equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources came from and how it uses them, and (4) a government's financial position and economic condition and how they have changed after time – by including information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to

NOTE 13. RECENT GASB PRONOUNCEMENTS (CONTINUED)

the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This statement does not have a material effect on the financial statements of the City.

NOTE 14. RECLASSIFICATION

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. A reclassification has been made to the Statements of Net Position for fiscal year ended June, 2017, to identify the net investment in capital assets for $(39,330,081). This change in classification does affect previously reported total net position in the Statements of Net Position.

SUPPLEMENTARY INFORMATION

SIERRA VISTA HOSPITAL
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2018

	Bank of the Southwest	Citizens Bank	US Bank	Total
Deposits at June 30, 2018	$ 2,852,026	2,541	112,951	$ 2,967,518
Less: FDIC insurance	(250,000)	(250,000)	(250,000)	(750,000)
Total uninsured public funds	2,602,026	(247,459)	(137,049)	2,217,518
50% pledged collateral requirement per statute	$ 1,301,013	-	-	$ 1,301,013
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	$ (1,500,000)			$ (1,500,000)
Total pledged collateral	(1,500,000)	-	-	(1,500,000)
Pledged collateral over the requirement	**$ 198,987**	**-**	**-**	**$ 198,987**

Pledged collateral at June 30, 2018, consists of the following:

	Fair Value			
Security	**Bank of the Southwest**	**Citizens Bank**	**US Bank**	**Total**
FHLB Letter of credit, matures 06/03/2019	$ 200,000	-	-	$ 200,000
FHLB Letter of credit, matures 12/05/2018	1,300,000	-	-	1,300,000
Total pledged collateral	**$ 1,500,000**	**-**	**-**	**$ 1,500,000**

SIERRA VISTA HOSPITAL
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2018

Depository	Account Name	Account Type	Bank Balance		Deposits in Transit		Outstanding Checks	Book Balance
Deposit Account								
US Bank	US Bank		$112,798	$	153.00	$	-	$112,951
Bank of the Southwest	Operating Account - Cash	Interest bearing checking	$2,967,416	$	-	$	(162,088)	$2,805,328
Bank of the Southwest	SVH Savings - Cash	Savings	$1	$	-	$	-	$1
Bank of the Southwest	Payroll Account - Cash	Interest bearing checking	$505	$	-	$	-	$505
Bank of the Southwest	Bobbie West Scholarship - Cash	Savings	$3,582	$	-	$	-	$3,582
Bank of the Southwest	Employee Advance Fund	Interest bearing checking	$536	$	-	$	-	$536
Bank of the Southwest	Restricted Funds - Cash		$42,074	$	-	$	-	$42,074
Citizens Bank	MM - Citizens Bank	Money Market	$2,541	$	-	$	-	$2,541
Cash on hand	Petty Cash	Petty cash	$1,300	$	-	$	-	$1,300
								$0
New Mexico Finance Authority	Loan Agreement Reserve	Money Market	$1,700,959	$	-	$	-	$1,700,959
New Mexico Finance Authority	Loan Program Account	Money Market	$19,833,280	$	-	$	-	$19,833,280
New Mexico Finance Authority	Loan Service Account	Money Market	$734	$	-	$	-	$734
Total deposits and investments			**$ 24,665,726**	**$**	**153**	**$**	**(162,088)**	**$ 24,503,791**

SIERRA VISTA HOSPITAL
SCHEDULE OF INDIGENT CARE COST AND FUNDING
REPORT YEARS ENDED JUNE 30, 2018, 2017 AND 2016

			For the year ended June 30,		
			2018	**2017**	**2016**
A	**Funding for Indigent Care**				
	A1	State appropriations specified for indigent care	$ -	$ -	$ -
	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	367	29,638	133,126
	B2	Patients qualifying for coverage under EMSA	-	-	-
	B3	Cost of care related to patient 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	-	-	-
	B5	Other costs of providing Indigent Care (please specify)			
		Total Cost of Providing Indigent Care	367	29,638	133,126
	Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care		$ (367)	$ (29,638)	$ (133,126)
C	**Patients Receiving Indigent Care Services**				
	C1	Total number of patients receiving indigent care	8	28	83
	C2	Total number of patient encounters receiving indigent care	8	34	118

SIERRA VISTA HOSPITAL
SCHEDULE OF INDIGENT CARE COST AND FUNDING REPORT (CONTINUED)
YEARS ENDED JUNE 30, 2018, 2017 AND 2016

	For the year ended June 30, 2018	2017	2016
Uninsured patients qualifying for indigent care			
Charges for these patients	574	43,586	208,010
Ratio of cost to charges	64.0%	68.0%	64.0%
Cost for uninsured patients qualifying for indigent care	367	29,638	133,126
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)			
Charges for these patients	-	-	-
Ratio of cost to charges	0.0%	0.0%	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%	0.0%	0.0%
Cost of care related to patient 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
FOR THE YEAR ENDED JUNE 30, 2018

	Original Approved Budget	Final Approved Budget	Actual	Variance with Final Budget- Over (Under)
Revenues				
Net patient service revenue	$ 22,858,344	$ 22,858,344	**$ 17,400,972**	$ (5,457,372)
Other	264,958	264,958	**386,513**	$ 121,555
Nonoperating revenues (expenses) and other, net	1,523,006	1,523,006	**4,490,994**	$ 2,967,988
Total Revenues	$ 24,646,308	$ 24,646,308	**$ 22,278,479**	(2,367,829)
Expenses				
Salaries, wages, and benefits	$ 13,117,595	$ 13,117,595	**$ 12,240,494**	$ (877,101)
Other	10,454,213	10,454,213	**11,740,084**	$ 1,285,871
Total expenses	$ 23,571,808	$ 23,571,808	**$ 23,980,578**	$ 408,770
Change in net position	$ 1,074,500	$ 1,074,500	**$ (1,702,099)**	$ (2,776,599)

See accompanying independent auditor's report

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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*

Independent Auditor's Report

Joint Powers Commission, Governing Board
and Management of Sierra Vista Hospital,
and Mr. Brian S. Colón, 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 the business type activities of Sierra Vista Hospital (the "Hospital"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 14, 2019.

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. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as 2015-001, 2017-001, 2017-002 and 2018-001 in findings.

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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ricci & Company LLC

Albuquerque, New Mexico
February 14, 2019

SIERRA VISTA HOSPITAL
SUMMARY OF AUDIT FINDINGS
For the Year Ended June 30, 2018

A. SCHEDULE OF PRIOR YEAR FINDINGS

Financial Statement Audit

	Status of Current and Prior Year Findings
Prior Year Findings	
2016-002 Auditor- Detected Adjustments	Cleared
2017-003 Control Environment	Cleared
2017-004 Expense Reports	Cleared
2017-005 Governmental Conduct Act	Cleared
2015-001 Actual Expenditures Exceeded Budgeted Expenditures	Repeated and Modified
2017-001 New Mexico Finance Authority Loan	Repeated and Modified
2017-002 No Physical Inventory of Capital Assets Performed	Repeated
Current Year Findings	
2015-001 Actual Expenditures Exceeded Budgeted Expenditures	Repeated as 2015-001
2017-001 New Mexico Finance Authority Loan	Repeated as 2017-001
2017-002 No Physical Inventory of Capital Assets Performed	Repeated as 2017-002
2018-001 Late Audit (Other Noncompliance)	New as 2018-001

2015-001 Actual Expenditures Exceeded Budgeted Expenditures
Repeated and Modified- Other Noncompliance

Condition

The Hospital's actual expenditures for fiscal year 2018 exceeded budgeted expenditures by $408,770. 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.

The Hospital is aware of the issue and in the progress of modifying the procedure of submitting BARs during FY19.

Criteria

In order to comply with Section 2.2.2.10 O (1) NMAC, actual expenditures cannot exceed budgeted expenditures at the fund level.

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 partially agrees with the recommendation. The Hospital will monitor expenditures throughout the fiscal year and if necessary, will submit an amended budget to the DFA for approval. The Hospital did submit an amended budget before the 7/31/2018 deadline, however because the Hospital was unaware, apparently the Hospital did submit the revised budget was not submitted on the appropriate "BAR" form.

Responsible Official/ Timeline

The Chief Financial Officer is the responsible official. The timeline is monthly monitoring throughout the Fiscal Year.

2017-001 New Mexico Finance Authority Loan Agreement Coverage Ratio Not Met Repeated and Modified- Other Noncompliance

Condition

The Hospital did not maintain a level of net income to be in compliance with loan agreement covenants. The Hospital fell short of the required income by approximately $3.6m.

The Hospital has not made significant progress in resolving the issue.

Criteria

The Hospital must have revenues in excess of expenses that are equal to or greater than 130% of the maximum aggregate annual debt service ($1,458,608).

Cause

The Hospital operated at a loss during the year and therefore was not able to meet the covenant of the bond.

Effect

The New Mexico Finance Authority could place restrictions on the Hospital.

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.

Responsible Official/ Timeline

The Chief Financial Officer is the responsible official. The timeline is monthly monitoring throughout the Fiscal Year.

2017-002 No Physical Inventory of Capital Assets Performed
Repeated and Modified- Other Noncompliance

Condition

There was no physical inventory of property and equipment performed by the Hospital during or subsequent to the year ended June 30, 2018.

The Hospital has not made significant progress in implementing physical inventory of property and equipment.

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.

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 strive to complete a physical Inventory of capital assets prior to fiscal year end June 30, 2019. However, with the limited resources, it is unlikely that this will occur.

Responsible Official/ Timeline

The Chief Financial Officer is the responsible officer. This area is being reviewed but because of the resources required to fulfill this requirement, currently there is no timeline set.

SIERRA VISTA HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2018

2018-001 Late Audit
New – Other Noncompliance

Condition
The annual audit of the Hospital was not submitted to the Office of the State Auditor by the statutory deadline of October 15, 2018. The date the financial statements were ready for issuance was February 14, 2019.

Criteria
Per State Audit Rule 2.2.2.9 A 1 (d), the audited financial statements of hospitals and special hospital districts are due by October 15 following the close of the year under audit.

Cause
The Hospital's books and records were not reconciled or complete upon our scheduled fieldwork and thus the Hospital needed additional time to prepare the trial balance for the auditors.

Effect
The Hospital was not in compliance with state law.

Recommendation
A milestone schedule with completion dates should be agreed on to ensure on time completion; the Hospital should develop a strategy for ensuring that auditor requests are responded to timely and that delays be communicated early and frequently to allow for fieldwork timing to be changed.

Management's Response

The Hospital will strive to have the audit completed and submitted to The Office of the State Auditor by the statutory deadline of October 15, 2018.

Responsible Official/ Timeline

The Chief Financial Officer is the responsible officer. The timeline is October 15th, 2019.

SIERRA VISTA HOSPITAL
EXIT CONFERENCE
For the Year Ended June 30, 2018

Exit Conference and Board of Trustees Presentation
The contents of this report were discussed on February 14, 2019. The following individuals were in attendance.

Sierra Vista Hospital

Ann Filosa	Finance Chair
David Faulkner	Interim CEO
Chun-Ming Huang	Assistant CFO
Stephen Huey	Interim CFO
Greg D'Amour	Board Chair

Ricci & Company

Mark Santiago, CPA	Senior Audit Manager

Financial Statement Preparation

The Hospital's independent public accountants prepared the accompanying basic financial statements; however, the Hospital is responsible for the basic financial statement and disclosure content. The Hospital's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.