



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SIERRA VISTA HOSPITAL

June 30, 2019 and 2018



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SIERRA VISTA HOSPITAL

GOVERNING BOARD AND PRINCIPAL EMPLOYEES

June 30, 2019

OFFICIAL ROSTER

County of Sierra, New Mexico, Representatives

Greg D'Amour, Chairperson

Kathi Pape

Stan Thompson

City of Truth or Consequences, New Mexico, Representatives

Peggy Johnson

Bruce Swingle

Vacant

Village of Williamsburg, New Mexico, Representative

Denise Addie

City of Elephant Butte, New Mexico, Representatives

Pasty Barnett

Vacant

Ex—officio Members

Amanda Cardona, Williamsburg Village Clerk

Vacant, Elephant Butte City Manager

Principal Employees

David Faulkner, Interim Chief Executive Officer

Stephen Huey, Interim Chief Finance Officer

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sierra Vista Hospital (the Hospital), which comprise the statement of net position as of and for the year ended June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, 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 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 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 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 financial position of Sierra Vista Hospital as of June 30, 2019, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Restatement

As discussed in Note 14 to the financial statements, management discovered errors resulting in a misstatement of previously reported balances. Accordingly, adjustments have been made to correct these errors. Our opinion is not modified with respect to this matter.

Other Matters

2018 Financial Statements

The accompanying financial statements of the Hospital as of and for the year ended June 30, 2018 were audited by other auditors whose report, dated February 14, 2019, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements and budget comparison. The accompanying schedule of pledged collateral, schedule of individual deposit and investment accounts, schedule of indigent care cost and funding report, and schedule of revenues and expenses – budget to actual are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The accompanying schedule of pledged collateral, schedule of individual deposit and investment accounts, schedule of indigent care and funding report, and schedule of revenues and expenses – budget to actual are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying, schedule of pledged collateral, schedule of individual deposit and investment accounts, schedule of indigent care and funding report, and schedule of revenues and expenses – budget to actual are 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 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 effectiveness of Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 14, 2019

Sierra Vista Hospital

Management Discussion and Analysis

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, 2019 and 2018. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Financial Highlights

- The Hospital's net position increased by \$1,800,494 in 2019 and decreased in 2018 by \$1,702,099.
- In 2019, the Hospital reported an increase in operating income of \$3,227,204 from the income reported in 2018. The operating income in 2018 improved by \$549,108 compared to 2017.
- Nonoperating net revenues increased by \$283,189 in 2019 compared to 2018. Nonoperating net revenues decreased by \$349,324 in 2018 compared to 2017.

Using This Annual Report

The Hospital's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital finances begins on page 6. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. You can think of the Statements of Net Position – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. The Statements of Revenues, Expenses, and Changes in Net Position tell the reader if the Hospital had a profitable year or operated at a loss. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statements of Cash Flows

The final required statement is the Statements of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from? What was cash used for? What was the change in cash balance during the reporting period?"

Sierra Vista Hospital Management Discussion and Analysis

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position, on page 10. The Hospital's net position increased by \$1,800,494 in 2019, and decreased by \$1,702,099 in 2018, as shown in Table 1.

The increase in net position is primarily due to growth in operating revenue of \$3,020,722 and an increase in net income from operations of \$3,227,204.

Table 1. Statement of Net Position

	December 31,		
	2019	2018	2017
ASSETS			
Current assets	\$ 8,135,474	\$ 6,548,107	\$ 6,101,659
Assets limited as to use	4,509,836	21,534,973	30,045,556
Capital assets, net	35,368,193	21,719,777	13,830,170
Total assets	<u>\$ 48,013,503</u>	<u>\$ 49,802,857</u>	<u>\$ 49,977,385</u>
LIABILITIES			
Current liabilities	\$ 4,355,329	\$ 4,488,211	\$ 2,504,771
Noncurrent liabilities	26,680,092	30,137,058	30,592,927
Total liabilities	<u>31,035,421</u>	<u>34,625,269</u>	<u>33,097,698</u>
NET POSITION			
Net investment in capital assets	13,192,188	12,697,762	12,867,793
Unrestricted	3,785,894	2,479,826	4,011,894
Total net position	<u>16,978,082</u>	<u>15,177,588</u>	<u>16,879,687</u>
Total liabilities and net position	<u>\$ 48,013,503</u>	<u>\$ 49,802,857</u>	<u>\$ 49,977,385</u>

Operating Results and Changes in the Hospital's Net Position

In 2019, the Hospital's operating income increased by \$3,227,204. This is the result of total operating revenues increasing by \$3,020,722 and total operating expenses decreasing by \$206,482 in 2019 as compared to 2018. In comparison to the results for 2018, the Hospital experienced net patient service revenue growth against decreased operating expenses.

Sierra Vista Hospital

Management Discussion and Analysis

Table 2. Operating Results and Changes in Net Position

	Years Ended December 31,		
	2019	2018	2017
OPERATING REVENUES			
Net patient service revenue	\$ 20,981,463	\$ 17,400,972	\$ 19,400,087
Safety net care pool	2,636,978	3,461,242	2,110,358
Grants	128,254	115,778	-
Other	638,532	386,513	218,667
Total operating revenues	<u>24,385,227</u>	<u>21,364,505</u>	<u>21,729,112</u>
OPERATING EXPENSES			
Salaries, wages, and employee benefits	10,529,317	12,240,494	13,143,084
Supplies, insurance, and other	12,202,773	10,614,444	10,586,777
Depreciation and amortization	1,024,032	1,107,666	1,146,458
Total operating expenses	<u>23,756,122</u>	<u>23,962,604</u>	<u>24,876,319</u>
Operating income (loss)	<u>629,105</u>	<u>(2,598,099)</u>	<u>(3,147,207)</u>
NONOPERATING REVENUES (EXPENSES)			
Gross receipts and mill levy tax revenue	1,177,518	905,324	1,209,170
Contributions	-	2,243	8,680
Loss on disposal of capital assets	-	(14,061)	-
Interest income	2,558	12,668	27,313
Interest expense	(8,687)	(17,974)	(7,639)
Total nonoperating revenues, net	<u>1,171,389</u>	<u>888,200</u>	<u>1,237,524</u>
Excess (deficiency) of revenues over expenses before capital contributions:	1,800,494	(1,709,899)	(1,909,683)
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>7,800</u>	<u>233,105</u>
INCREASE (DECREASE) IN NET POSITION	<u>1,800,494</u>	<u>(1,702,099)</u>	<u>(1,676,578)</u>
NET POSITION, beginning of year	<u>15,177,588</u>	<u>16,879,687</u>	<u>18,556,265</u>
NET POSITION, end of year	<u>\$ 16,978,082</u>	<u>\$ 15,177,588</u>	<u>\$ 16,879,687</u>

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

During the year operating revenues increased \$3,020,722. Operating expenses decreased in the amount of \$206,482.

Sierra Vista Hospital Management Discussion and Analysis

Table 3. Budget to Actual

	Actual	Final Budget	Positive (Negative) Variance
Budgetary basis revenues	\$ 25,556,616	\$ 25,240,788	\$ 315,828
Budgetary basis expenses	23,756,122	24,971,141	1,215,019
Change in net position	<u>\$ 1,800,494</u>	<u>\$ 269,647</u>	<u>\$ 1,530,847</u>

Actual results compare favorably to budgeted amounts for the Hospital, due to actual revenues being \$315,828 more than budgeted, while actual expenses were \$1,215,019 less than budgeted. This results in a positive variance of \$1,530,847 with change in net position of 1,800,494 as compared to budgeted change in net position of \$269,647, as shown in Table 3.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019, the Hospital had \$35,368,193 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the basic financial statements. In 2019, the Hospital purchased new assets costing \$14,672,448. These purchases primarily consisted of costs related to the construction of a replacement hospital, which is expected to open in fiscal year 2020.

Debt

At June 30, 2019, the Hospital had \$5,749 in capital lease obligations and a \$26,714,442 New Mexico Finance Authority (NMFA) Loan Agreement outstanding (including \$1,338,895 in unamortized premium), as detailed in Note 5 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. During fiscal year 2019, the Hospital refunded the 2016 NMFA Loan as detailed in Note 5.

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.

Sierra Vista Hospital Management Discussion and Analysis

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 over the past few years 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

ASSETS

	June 30,	
	2019	2018 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,184,117	\$ 2,968,818
Patient accounts receivable, net of bad debts of \$1,434,585 and \$1,689,966, respectively	1,689,741	2,236,070
Safety net care pool receivable	599,622	718,868
Taxes receivable	143,600	82,967
Other receivables	114,862	1,400
Inventories	333,305	489,839
Prepaid expenses and other current assets	70,227	50,145
Total current assets	8,135,474	6,548,107
ASSETS LIMITED AS TO USE	4,509,836	21,534,973
CAPITAL ASSETS, net	35,368,193	21,719,777
Total assets	<u>\$ 48,013,503</u>	<u>\$ 49,802,857</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 1,610,324	\$ 1,326,957
Construction payables	1,316,065	-
Accrued payroll and related liabilities	622,456	827,498
Estimated third-party payor settlements	646,939	1,739,000
Accrued interest	153,796	174,826
Current maturities of capital leases	5,749	39,930
Current maturities of long-term debt	-	380,000
Total current liabilities	4,355,329	4,488,211
NONCURRENT LIABILITIES		
Capital leases, net of current maturities	-	5,748
Long-term debt, net of current maturities	26,680,092	30,131,310
Total liabilities	31,035,421	34,625,269
NET POSITION		
Net investment in capital assets	13,192,188	12,697,762
Unrestricted	3,785,894	2,479,826
Total net position	16,978,082	15,177,588
Total liabilities and net position	<u>\$ 48,013,503</u>	<u>\$ 49,802,857</u>

Sierra Vista Hospital

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2019	2018
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of \$3,930,201 and \$2,658,352, respectively	\$ 20,981,463	\$ 17,400,972
Safety net care pool	2,636,978	3,461,242
Grants	128,254	115,778
Other	638,532	386,513
Total operating revenues	24,385,227	21,364,505
OPERATING EXPENSES		
Salaries and wages	8,813,532	10,241,484
Employee benefits	1,715,785	1,999,010
Professional fees	8,015,257	6,945,105
Supplies	1,772,561	1,761,534
Utilities	386,753	358,706
Repairs and maintenance	599,614	398,612
Leases and rentals	198,132	143,975
Insurance	472,953	408,638
Depreciation and amortization	1,024,032	1,107,666
Other	757,503	597,874
Total operating expenses	23,756,122	23,962,604
Operating income (loss)	629,105	(2,598,099)
NONOPERATING REVENUES (EXPENSES)		
Gross receipts tax revenue	506,345	340,588
Mill levy revenue	671,173	564,736
Contributions	-	2,243
Loss on disposal of capital assets	-	(14,061)
Interest income	2,558	12,668
Interest expense	(8,687)	(17,974)
Total nonoperating revenues, net	1,171,389	888,200
Excess (deficiency) of revenues over expenses before capital grants and contributions	1,800,494	(1,709,899)
CAPITAL GRANTS AND CONTRIBUTIONS	-	7,800
INCREASE (DECREASE) IN NET POSITION	1,800,494	(1,702,099)
NET POSITION, beginning of year	15,177,588	16,879,687
NET POSITION, end of year	\$ 16,978,082	\$ 15,177,588

Sierra Vista Hospital Statements of Cash Flows

	Years Ended June 30,	
	2019	2018 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 23,191,955	\$ 21,011,903
Receipts from grants and other	653,324	504,534
Payments to and on behalf of employees	(10,734,359)	(10,211,834)
Payments to suppliers and contractors	(11,782,954)	(10,689,117)
Net cash provided by operating activities	<u>1,327,966</u>	<u>615,486</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	-	7,800
Receipts from gross receipts tax	491,245	429,137
Receipts from mill levy	625,640	564,736
Net cash provided by noncapital financing activities	<u>1,116,885</u>	<u>1,001,673</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(13,392,062)	(9,047,272)
Principal payments on capital leases	(39,929)	(50,008)
Proceeds from issuance of long-term debt	26,714,442	-
Principal payments on long-term debt	(29,505,000)	(364,999)
Repayment of long-term debt premium	(1,026,011)	-
Interest paid, net of amounts capitalized	(8,687)	(20,406)
Net cash used by capital and related financing activities	<u>(17,257,247)</u>	<u>(9,482,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	2,216,043
Interest received	2,558	12,668
Net cash provided by investing activities	<u>2,558</u>	<u>2,228,711</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(14,809,838)</u>	<u>(5,636,815)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>24,503,791</u>	<u>30,140,606</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,693,953</u>	<u>\$ 24,503,791</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents	\$ 5,184,117	\$ 2,968,818
Cash and cash equivalents in assets limited as to use	4,509,836	21,534,973
Total cash and cash equivalents	<u>\$ 9,693,953</u>	<u>\$ 24,503,791</u>

See accompanying notes.

Sierra Vista Hospital

Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 629,105	\$ (2,598,099)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,024,032	1,107,666
Provision for bad debts	3,930,201	2,658,352
Changes in operating assets and liabilities		
Patient accounts receivable	(3,383,872)	(2,817,620)
Safety net care pool receivable	119,246	311,200
Other receivables	(113,462)	-
Inventories	156,534	(29,177)
Prepaid expenses and other current assets	(20,082)	2,216
Accounts payable	283,367	412,298
Accrued payroll and related liabilities	(205,042)	29,650
Estimated third-party payor settlements	(1,092,061)	1,539,000
Net cash provided by operating activities	<u>\$ 1,327,966</u>	<u>\$ 615,486</u>
DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Increase in construction payables	\$ 1,316,065	\$ -
Amortization of premium and change in accrued interest capitalized as part of capital assets	\$ 35,679	\$ 38,370

Note 1 – Description of Reporting Entity and Related Organizations

Reporting Entity – Sierra Vista Hospital (the Hospital) operates a 11-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.

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.

Sierra Vista Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies

The financial statements and notes are the representation of the Hospital's management who are responsible for their integrity and objectivity. The financial statements of the Hospital conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The summary of significant accounting policies of the Hospital is presented to assist in the understanding of the Hospital's financial statements. The Hospital's accounting policies are described below.

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.

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.

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.

Patient Accounts Receivable – Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Estimated provisions for doubtful accounts are recorded to the extent it is probably a portion or all of a particular account will not be collected. The Hospital determines if patient account receivables are past-due based on the date the service was performed, and the Hospital does not charge interest on past-due accounts.

Inventories – Inventories are recorded at the lower of cost or market on a first-in, first-out basis, and consist of medical, surgical, pharmaceutical, dietary and other supplies held for use in operations and are recorded as expenses when consumed rather than when purchased.

Assets Limited as to Use – Assets limited as to use include assets restricted and held in trust by the New Mexico Finance Authority for construction, debt service, and debt service reserve (Note 3).

Note 2 – Summary of Significant Accounting Policies (continued)

Capital Assets – The Hospital capitalizes property and equipment costing \$5,000 or more and with an estimated useful life of at least two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated property and equipment are recorded at fair market value at the date of donation. Depreciation is recorded using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Equipment	3 to 10 years

Compensated Absences – Vacation pay is accrued for employees based on hours paid. Accrual rates of 26 to 36 days per year are based on years of service. Vacation hours vest to the employee as they are earned. As of June 30, 2019 and 2018, the Hospital had accrued \$282,433 and \$320,323 for compensated absences, respectively.

Net Position – The Hospital's net position is classified as follows:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation and amortization and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Expendable – Assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time. There was no restricted expendable net position as of June 30, 2019 or 2018.

Unrestricted – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Directors.

Restricted Resources – When the Hospital has both restricted and unrestricted resources available to finance a particular program, it's the Hospital's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses – The Hospital's statements of revenues, expenses, and changes in net position distinguish between operating and non-operating 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.

Non-exchange revenues, including taxes and contributions received for purposes other than capital asset acquisitions, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Sierra Vista Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue – The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognized 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 uninsured 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 in the period the services are provided.

Grants and Contributions – From time to time, the Hospital receives grants from the County, the City, Elephant Butte, the Village, and the State of New Mexico, 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 non-operating revenues. Contributions and amounts restricted for capital acquisitions are reported after non-operating revenues and expenses.

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.

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.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of net position date but before financial statements are available to be issued. The Hospital recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The Hospital financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position date and before financial statements are available to be issued.

The Hospital has evaluated subsequent events through October 14, 2019, which is the date the financial statements were available to be issued.

Reclassifications – Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Sierra Vista Hospital Notes to Financial Statements

Note 3 – Cash, Cash Equivalents, and Assets Limited as to Use

The balance of assets limited as to use at June 30, 2019 and 2018 is made up of cash and cash equivalents. Those amounts are restricted as follows:

	Years Ended June 30,	
	2019	2018
Restricted under New Mexico Finance Authority loan agreement for debt service reserve	\$ 1,664,751	\$ 1,700,959
Restricted under New Mexico Finance Authority loan agreement for debt service	475,444	734
Restricted under New Mexico Finance Authority loan agreement for capital improvements	2,369,641	19,833,280
Total assets limited as to use	<u>\$ 4,509,836</u>	<u>\$ 21,534,973</u>

Custodial credit risk for deposits 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.

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

Sierra Vista Hospital

Notes to Financial Statements

Note 4 – Capital Assets

The following summarizes capital asset activity for the years ended June 30, 2019 and 2018:

	July 1, 2018	Additions	Disposals	Transfer	June 30, 2019
Non-depreciable assets					
Land	\$ 506,649	\$ -	\$ -	\$ -	\$ 506,649
Construction in progress	11,449,785	14,488,954	-	-	25,938,739
	<u>11,956,434</u>	<u>14,488,954</u>	<u>-</u>	<u>-</u>	<u>26,445,388</u>
Depreciable assets					
Buildings and improvements	10,079,302	-	-	-	10,079,302
Equipment	8,718,896	183,494	(77,270)	-	8,825,120
	<u>18,798,198</u>	<u>183,494</u>	<u>(77,270)</u>	<u>-</u>	<u>18,904,422</u>
Accumulated depreciation					
Buildings and improvements	(2,648,662)	(397,832)	-	-	(3,046,494)
Equipment	(6,386,193)	(626,200)	77,270	-	(6,935,123)
	<u>(9,034,855)</u>	<u>(1,024,032)</u>	<u>77,270</u>	<u>-</u>	<u>(9,981,617)</u>
Capital assets, net	<u>\$ 21,719,777</u>	<u>\$ 13,648,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,368,193</u>
July 1, 2017					
Non-depreciable assets					
Land	\$ 506,649	\$ -	\$ -	\$ -	\$ 506,649
Construction in progress	2,509,251	8,940,534	-	-	11,449,785
	<u>3,015,900</u>	<u>8,940,534</u>	<u>-</u>	<u>-</u>	<u>11,956,434</u>
Depreciable assets					
Buildings and improvements	10,079,302	-	-	-	10,079,302
Equipment	8,674,342	70,800	(26,246)	-	8,718,896
	<u>18,753,644</u>	<u>70,800</u>	<u>(26,246)</u>	<u>-</u>	<u>18,798,198</u>
Accumulated depreciation					
Buildings and improvements	(2,239,320)	(409,342)	-	-	(2,648,662)
Equipment	(5,700,054)	(698,324)	12,185	-	(6,386,193)
	<u>(7,939,374)</u>	<u>(1,107,666)</u>	<u>12,185</u>	<u>-</u>	<u>(9,034,855)</u>
Capital assets, net	<u>\$ 13,830,170</u>	<u>\$ 7,903,668</u>	<u>\$ (14,061)</u>	<u>\$ -</u>	<u>\$ 21,719,777</u>

Depreciation expense, including amortization for equipment held under capital lease for the years ended June 30, 2019 and 2018 was \$1,024,032 and \$1,107,666, respectively.

Interest costs were approximately \$1,074,000 and \$638,000 in 2019 and 2018, respectively, of which approximately \$1,065,000 and \$620,000 were capitalized in 2019 and 2018, respectively. Interest earned was approximately \$298,000 and \$310,000 in 2019 and 2018, respectively, of which \$295,000 and \$297,000 were capitalized in 2019 and 2018, respectively.

Sierra Vista Hospital Notes to Financial Statements

Note 5 – Long-Term Debt

The following summarizes long-term debt activity for the years ended June 30, 2019 and 2018:

	June 30,	
	2019	2018
New Mexico Finance Authority		
Refunded Loan Agreement, due serially beginning May 1, 2021, with interest due semi-annually at rates from 3.00% to 5.00%, maturing in May 2046.	\$ 25,375,547	\$ -
Refunded Loan Agreement premium	1,304,545	-
2016 Hospital Loan, 3.35% blended interest term loan, refunded in 2019.	-	29,505,000
2016 Hospital Loan premium, refunded in 2019.	-	1,006,310
	26,680,092	30,511,310
Capital lease obligations	5,749	45,678
	26,685,841	30,556,988
Less current maturities	5,749	419,930
Long-term debt, less current maturities	\$ 26,680,092	\$ 30,137,058

The Hospital entered into a loan agreement with New Mexico Finance Authority (NMFA), dated May 24, 2016 (the “2016 Hospital Loan”), in the original amount of \$30,220,000, for the construction of a replacement hospital. On November 30, 2018, the Hospital entered into a new loan agreement with NMFA (the “Refunded Loan Agreement”). The proceeds of the Refunded Loan Agreement, along with a portion of the remaining proceeds from the 2016 Hospital Loan, were used to refund the 2016 Hospital Loan and \$1,026,011 on the premium from the 2016 Hospital Loan. This refunding did not result in a material accounting gain or loss or economic gain or loss.

Under the term of Refunded Loan Agreement, the Hospital is required to maintain coverage ratio of 130 percent. The coverage ratio requires the sum of pledged revenue, which includes net system revenue, including gross receipts tax revenue less operating expenses excluding depreciation expenses to be 130 percent of the maximum aggregate annual debt service requirement. As of June 30, 2019, the Hospital was in compliance with these requirements.

Sierra Vista Hospital

Notes to Financial Statements

Note 5 – Long-Term Debt (continued)

Changes in the Hospital's noncurrent liabilities during the years ended June 30, 2019 and 2018, are summarized below:

	July 1, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within One Year
New Mexico Finance Authority Refunded Loan Agreement	\$ -	\$ 25,375,547	\$ -	\$ 25,375,547	\$ -
Refunded Loan Agreement premium	-	1,338,895	-	1,338,895	-
2016 Hospital Loan	29,505,000	-	(29,505,000)	-	-
2016 Hospital Loan Premium	1,006,310	-	(1,006,310)	-	-
Capital leases	45,678	-	(39,929)	5,749	5,749
Total noncurrent liabilities	\$ 30,556,988	\$ 26,714,442	\$ (30,551,239)	\$ 26,720,191	\$ 5,749

	July 1, 2017	Additions	Reductions	June 30, 2018	June 30, 2018
New Mexico Finance Authority 2016 Hospital Loan	\$ 29,870,000	\$ -	\$ (365,000)	\$ 29,505,000	\$ 380,000
2016 Hospital Loan Premium	1,042,248	-	(35,938)	1,006,310	-
Capital leases	95,686	-	(50,008)	45,678	39,930
Total noncurrent liabilities	\$ 31,007,934	\$ -	\$ (450,946)	\$ 30,556,988	\$ 419,930

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 5,749	\$ 922,823	\$ 928,572
2021	543,923	922,774	1,466,697
2022	571,118	895,578	1,466,696
2023	599,674	867,022	1,466,696
2024	629,658	837,038	1,466,696
2025-2029	3,630,695	3,702,784	7,333,479
2030-2034	4,440,962	2,892,519	7,333,481
2035-2039	5,300,498	1,964,523	7,265,021
2040-2044	6,504,960	1,089,129	7,594,089
2045-2046	3,154,059	142,632	3,296,691
	\$ 25,381,296	\$ 14,236,822	\$ 39,618,118

Note 6 – Net Patient Service Revenue

Net patient service revenue is reported at the estimated net amounts realizable from patient, third-party payors, and other for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Sierra Vista Hospital Notes to Financial Statements

Note 6 – Net Patient Service Revenue (continued)

The major sources of net patient service revenue for the years ended June 30, 2019 and 2018 are as follows:

	Years Ended June 30,	
	2019	2018
Gross patient service revenue		
Medicare	\$ 26,835,355	\$ 20,139,714
Medicaid/Centennial Care	13,077,055	9,087,702
Other governmental	1,156,254	1,240,120
Commercial and other	5,483,878	5,952,706
Self pay	1,646,064	1,060,930
	<u>48,198,606</u>	<u>37,481,172</u>
Less:		
Contractual adjustments	(23,236,476)	(17,651,658)
Charity care	(50,466)	(367)
Provision for bad debts	<u>(3,930,201)</u>	<u>(2,428,175)</u>
Net patient service revenues	<u>\$ 20,981,463</u>	<u>\$ 17,400,972</u>

A summary of the payment arrangements with major third-party payors is as follows:

Medicare – The Hospital qualified as a “Critical Access Hospital” under the Medicare System. As a designated Critical Access Hospital the Hospital is reimbursed for inpatient, inpatient non-acute services, and certain outpatient services related to Medicare beneficiaries based on a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid – Similar to Medicare, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Commercial – 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.

Sierra Vista Hospital

Notes to Financial Statements

Note 6 – Net Patient Service Revenue (continued)

Revenue from Medicare and Medicaid programs accounted for approximately 56% and 27%, respectively, of the Hospital's gross patient revenue for the year ended June 30, 2019 and approximately 54% and 19%, respectively, of the Hospital's patient revenue for the year ended June 30, 2018. 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 Medicare and Medicaid cost report for fiscal year 2018 through 2019 have not been final settled. In management's opinion, estimated Medicare and Medicaid settlements accrued for at June 30, 2019 are adequate to provide for the settlement of all open cost reports.

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

Note 7 – Charity Care

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Charges excluded from revenue under the Hospital's charity care policy were \$50,466 and \$367 for June 30, 2019 and 2018, respectively.

Note 8 – 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 Hospital recognized revenue from these programs in the amount of \$2,636,978 and \$3,461,242, respectively, for the year ended June 30, 2019 and 2018.

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 amount of the mill levy is based on annual assessments by the County Assessor and is due in equal semi-annual installments on November 10 and April 1 of each year. Taxes become delinquent 30 days after the due date unless the original levy date has been formally extended. Taxes are collected on behalf of the Hospital by the County Treasurer and are remitted to the Hospital in the month following collection. The Hospital received mill levy proceeds from the County in the amounts of \$671,173 and \$564,736 for the years ended June 30, 2019 and 2018, 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 \$506,000 and \$341,000 in 2019 and 2018, 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. 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 \$103,000 and \$62,000 for the years ended June 30, 2019 and 2018, respectively. Employee contributions were approximately \$145,000 and \$148,000 during the years ended June 30, 2019 and 2018, respectively.

Note 11 – Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and re insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors was as follows:

	Years Ended June 30,	
	2019	2018
Medicare	36%	31%
Medicaid	19%	23%
Self pay	18%	14%
Commercial and other	27%	32%
	<u>100%</u>	<u>100%</u>

Sierra Vista Hospital

Notes to Financial Statements

Note 12 – Commitments and Contingencies

Compliance with Laws and Regulations – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse laws and regulations as well as other applicable government regulations. While no regulatory inquiries have been made, 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.

Risk Management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of sets; 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 Commitments – The Hospital has entered into construction contract to plan, design and build the hospital building. At June 30, 2019 and 2018, \$1,487,000 and \$8,605,000, respectively, of construction contract is still outstanding.

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. The Hospital has not accrued estimated medical malpractice losses at June 30, 2019 or 2018.

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.

Note 13 – Related Party Transactions and Balances

The Hospital purchased dispatch services from the County of approximately \$29,000 and \$37,000 during the fiscal years ended June 30, 2019 and 2018, respectively.

The Hospital purchased electricity from the City of approximately \$261,000 and 207,000 during the fiscal year ended June 30, 2019 and 2018, respectively.

The Hospital purchased newspapers and advertising from Sierra County Sentinel of approximately \$3,000 and 4,000 during the fiscal year ended June 30, 2019 and 2018, respectively. Sierra County Sentinel is owned by a Board member.

Sierra Vista Hospital Notes to Financial Statements

Note 14 – Restatement

The accompanying consolidated financial statements include the impact of prior period adjustments on the following balances related to the classification of net position in the statements of net positions and the classification of cash paid for the purchase of capital assets in the statements of cash flows.

The Hospital misclassified the components of net position as of June 30, 2018 with respect to allocating related debt to the unexpended proceeds in the determination of restricted expendable net position as well the balance of capital leases of the net investment in capital assets. As a result, the net investment in capital assets component of net position was understated by \$21,489,295, the restricted expendable component of net position was overstated by \$21,534,973, and the unrestricted portion of net position was understated by \$45,678 as of June 30, 2018. There was no impact to total net position as a result of this misclassification.

The Hospital misclassified the cash paid for the purchase of capital assets as an investing activity on the statements of cash flows. As a result, the net cash provided by investing activities was understated by \$9,047,272 and the net cash used by capital and related financing activities was incorrect by an offsetting amount. There was no impact to the decrease in cash and cash equivalents as a result of this misclassification.

The impact of these corrections is as follows as of June 30, 2018:

	<u>As Issued</u>	<u>Net Position Classification Adjustment</u>	<u>Capital Asset Purchase Classification Adjustment</u>	<u>As Restated</u>
Impact to statement of net position				
Net position				
Net investment in capital assets	\$ (8,791,533)	\$ 21,489,295	\$ -	\$ 12,697,762
Restricted expendable	21,534,973	(21,534,973)	-	-
Unrestricted	2,434,148	45,678	-	2,479,826
Impact to statement of cash flows				
Net cash used by capital and related financing activities	(435,413)	-	(9,047,272)	(9,482,685)
Net cash provided (used) by investing activities	(6,818,561)	-	9,047,272	2,228,711

Supplementary Information

Sierra Vista Hospital
Schedule of Pledged Collateral
June 30, 2019

	Bank of the Southwest	US Bank	Citizens Bank	Total
Deposits	\$ 5,106,464	\$ 99,052	\$ 2,546	\$ 5,208,062
Less: FDIC insurance	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(750,000)</u>
Total uninsured public funds	<u>\$ 4,856,464</u>	<u>\$ (150,948)</u>	<u>\$ (247,454)</u>	<u>\$ 4,458,062</u>
50% pledged collateral requirement per statute	<u>\$ 2,428,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pledged collateral	Fair Market Value			
<u>Security type, CUSIP, Maturity Date</u>				
Letter of credit, FHLB, 6/3/2019	\$ 200,000			
Letter of credit, FHLB, 8/1/2019	500,000			
Letter of credit, FHLB, 0/3/2019	825,000			
Letter of credit, FHLB, 2/4/2020	200,000			
Letter of credit, FHLB, 12/5/2019	<u>1,300,000</u>			
Total pledged collateral	<u>3,025,000</u>			
Excess of pledged collateral over requirement	<u>\$ 596,768</u>			

Sierra Vista Hospital
Schedule of Individual Deposit and Investment Accounts
Year Ended June 30, 2019

Deposit	Bank of the Southwest	US Bank	Citizens Bank	New Mexico Finance Authority	Total
Operating Account - Checking	\$ 4,640,252	\$ 99,052	\$ 2,546	\$ -	\$ 4,741,850
Payroll Account - Checking	505	-	-	-	505
Savings Account	461,587	-	-	-	461,587
Employee Advancement Fund - Checking	536	-	-	-	536
Bobbie West Scholarship Fund - Checking	3,584	-	-	-	3,584
 Total deposits	 <u>5,106,464</u>	 <u>99,052</u>	 <u>2,546</u>	 <u>-</u>	 <u>5,208,062</u>
 Loan Agreement Reserve - Money Market Account	 -	 -	 -	 1,664,751	 1,664,751
Loan Program Account - Money Market Account	-	-	-	2,369,641	2,369,641
Loan Service Account - Money Market Account	-	-	-	475,444	475,444
 Total assets limited as to use	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>4,509,836</u>	 <u>4,509,836</u>
 Reconciling Items	 <u>(25,295)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(25,295)</u>
 Carrying value	 <u>\$ 5,081,169</u>	 <u>\$ 99,052</u>	 <u>\$ 2,546</u>	 <u>\$ 4,509,836</u>	 <u>\$ 9,692,603</u>
 Petty Cash					 <u>1,350</u>
 Total deposit and investments as of June 30, 2019					 <u>\$ 9,693,953</u>
 Reconciliation to the Statement of Net Position					
Cash and cash equivalents					\$ 5,184,117
Assets limited as to use					<u>4,509,836</u>
 Total deposits and assets limited as to use as of June 30, 2019					 <u>\$ 9,693,953</u>

Sierra Vista Hospital
Schedule of Indigent Care Cost and Funding
Report Years Ended June 30, 2019, 2018 and 2017

		For the Years Ended June 30,		
		2019	2018	2017
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 sources 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	27,252	367	29,638
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	27,252	367	29,638
	Excess (shortfall) of funding for charity care to cost of providing indigent care	\$ (27,252)	\$ (367)	\$ (29,638)
C	Patients Receiving Indigent Care Services			
C1	Total number of patients receiving indigent care	12	8	28

Sierra Vista Hospital
Schedule of Indigent Care Cost and Funding
Report Years Ended June 30, 2019, 2018 and 2017

	For the Years Ended June 30,		
	2019	2018	2017
Uninsured patients qualifying for indigent care			
Charges for these patients	50,466	574	43,586
Ratio of cost to charges	<u>54.0%</u>	<u>64.0%</u>	<u>68.0%</u>
Cost for uninsured patients qualifying for indigent care	<u><u>27,252</u></u>	<u><u>367</u></u>	<u><u>29,638</u></u>
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)			
Charges for these patients	-	-	-
Ratio of cost to charges	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
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	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Sierra Vista Hospital
Schedule of Revenues and Expenses – Budget to Actual
June 30, 2019

	Original Budget	Final Approved Budget	Actual	Variance with Final Budget- Over (Under)
REVENUES				
Net patient service revenue	\$ 20,760,343	\$ 20,760,343	\$ 20,981,463	\$ 221,120
Other operating revenue	3,823,559	3,823,559	3,403,764	(419,795)
Nonoperating revenues (expenses) and other, net	656,886	656,886	1,171,389	514,503
Total revenues	<u>25,240,788</u>	<u>25,240,788</u>	<u>25,556,616</u>	<u>315,828</u>
EXPENSES				
Salaries, wages and benefits	11,521,957	11,521,957	10,529,317	(992,640)
Other	13,449,184	13,449,184	13,226,805	(222,379)
Total expenses	<u>24,971,141</u>	<u>24,971,141</u>	<u>23,756,122</u>	<u>(1,215,019)</u>
CHANGE IN NET POSITION	<u>\$ 269,647</u>	<u>\$ 269,647</u>	<u>\$ 1,800,494</u>	<u>\$ 1,530,847</u>

Report of Independent Auditors 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. 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 statement of net position of Sierra Vista Hospital (the "Hospital") as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the and the related notes to the financial statements, which collectively comprise Sierra Vista Hospital's basic financial statements, and have issued our report thereon dated October 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2019-003 to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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.

Mess Adams LLP

Albuquerque, New Mexico
October 14, 2019

Sierra Vista Hospital
Summary of Auditor's Results (As required by 2.2.2.10 NMAC L(1)f)
Year Ended June 30, 2019

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

Yes No

Yes None reported

Compliance and other matters noted?

Yes No

Sierra Vista Hospital
Schedule of Findings and Responses
Year Ended June 30, 2019

2019-001 – Statement of Net Position and Cash Flows Classification (Material Weakness)

Condition – The Hospital's misclassified the components of net position as of June 30, 2018 with respect to allocating debt to the unexpended proceeds in the determination of restricted expendable net position as well as excluding the balance in capital leases in the determination of the net investment in capital assets. The Hospital also misclassified the cash paid for the purchase of capital assets as an investing activity on the statement of cash flows.

Criteria – The Hospital lacks the controls over review of the financial statements and disclosures in entirety in accordance with generally accepted accounting principles (GAAP).

Cause – There were changes made from the classification of these items in the 2017 financial statements to the 2018 financial statements that were overlooked by management.

Effect – There is a risk that financial statements and disclosure may be inaccurate.

Recommendation – The Hospital should review the financial statements in entirety and make sure that the financial statements and disclosures are fairly presented in accordance with GAAP.

Management's Response – The Hospital agrees with the recommendation and the proper reclassifications have been made to the 2018 information in the 2019 financial statements, as well as proper disclosure of the restatement in the 2019 financial statements.

Responsible Official/ Timeline – The responsible officials are the Chief Financial Officer and Assistant Chief Financial Officer. This issue has been resolved in conjunction with the preparation of the 2019 audited financial statements.

2019-002 – Internal Control Structure over Financial Reporting (Material Weakness)

Condition – The Hospital did not accrue invoices totaling \$1,316,065 related to capital expenditure and few other invoices during the current year. The majority of the expenses was related to the construction in progress invoices for which the information is held by NMFA and subsequently provided to the Hospital.

Criteria – The Hospital should establish and implement effective internal control procedures over financial close and reporting to ensure that all reporting of financial information be complete and accurate.

Cause – Construction invoices maintained and shared with the Hospital by NMFA was not assessed for cutoff at year-end once it was obtained by the Hospital.

Effect – Potential misstatements of the financial statements.

Recommendation – The Hospital should assess the underlying invoices provided by NMFA to ensure the related liabilities are recorded in the appropriate period.

Sierra Vista Hospital
Schedule of Findings and Responses (continued)
June 30, 2019

Management's Response – Management agrees with the finding. Going forward, the Hospital will assess the period of benefit of the invoices provided by NMFA based on the information in those invoices rather than based on the timing of when those invoices are provided to the Hospital by NMFA.

Responsible Official/ Timeline – The responsible officials are the Chief Financial Officer and Assistant Chief Financial Officer. The timeline is immediate and includes a monthly review of the invoices provided by NMFA.

2019-003 – Internal Control Structure over Financial Reporting (Significant Deficiency)

Condition – The Hospital did not accrue interest of \$153,796 on NMFA Loan.

Criteria – The Hospital should establish and implement effective internal control procedures over financial close and reporting to ensure that all reporting of financial information be complete and accurate.

Cause – Lack of consideration of accrued interest on the new loan with NMFA.

Effect – Potential misstatements of the financial statements.

Recommendation – The Hospital should establish adequate internal controls surrounding the accrual of interest expense.

Management's Response – The Hospital will assess accrued interest on the new loan with NMFA as part of the month-end closing process.

Responsible Official/ Timeline – The responsible officials are the Chief Financial Officer and Assistant Chief Financial Officer. Beginning with the September 2019 month-end closing, the accrued interest consideration has been included in the month-end closing process.

Sierra Vista Hospital
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2018

2015-001 Actual Expenditures Exceeded Budgeted Expenditures (Other Noncompliance) – Resolved

2017-001 New Mexico Finance Authority Loan Agreement Coverage Ratio Not Met (Compliance and Other Matter) – Resolved

2017-002 No Physical Inventory of Capital Assets Performed (Compliance and Other Matter) – Resolved

2018-001 Late Audit (Compliance and Other Matter) – Resolved

**Sierra Vista Hospital
Exit Conference
Year Ended June 30, 2019**

The contents of this report were discussed on October 9, 2019. The following individuals were in attendance:

Sierra Vista Hospital

Greg D'Amour, Governing Board Chair
Kathi Pape, Member
Peggy (Cookie) Johnson, Member
David Faulkner, Interim CEO
Stephen Huey, Interim CFO
Chun-Ming Huang, Assistant CFO
Thomas Ismond, Chief Nursing Officer

Moss Adams LLP

Josh Lewis, CPA, Partner

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.