

**Guadalupe County Hospital
A Component Unit of
Guadalupe County, New Mexico**

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
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INTRODUCTORY SECTION

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Board of Directors and Principal Employee
June 30, 2018

Board of Directors

Keith Ross	President
Lee Vega	Vice-President
Erasmio Bravo	Member
Yolanda Tenorio	Secretary/Treasurer
Yvette Griego	Member

Principal Employee

Christina Campos	Administrator
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors and Management of
Guadalupe County Hospital and
Mr. Wayne Johnson, New Mexico State Auditor
Santa Rosa, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Guadalupe County Hospital, a component unit of Guadalupe County, New Mexico (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. We have also audited the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2018, presented as supplemental information as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 September 25, 2018, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2018. We issued a similar report for the year ended June 30, 2017, dated September 22, 2017, which has not been included with the 2018 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 25, 2018

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

Our discussion and analysis of Guadalupe County Hospital's, a component unit of Guadalupe County, New Mexico (the Hospital), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Financial Highlights

- The Hospital's net position increased in each of the past two years by \$70,372, or 0.3 percent, in 2018 and \$488,631, 2.5 percent, in 2017.
- Net patient service revenue increased by \$530,289, or 7.4 percent, in 2018 and decreased by \$300,868, or 4.0 percent, in 2017.
- The Hospital reported an operating loss of \$570,008 in 2018 and \$193,966 in 2017. Operating income decreased by \$376,042, or 193.9 percent, in 2018 and increased by \$242,379, or 55.5 percent, in 2017.
- Nonoperating net revenues decreased by \$42,217, or 6.2 percent, in 2018 and decreased by \$105,117, or 13.3 percent, in 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital's finances begins on page 6. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in 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 Hospital's net position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. 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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management’s Discussion and Analysis (Continued)
Years Ended June 30, 2018 and 2017

The Statement of Cash Flows

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

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 pages 10 and 11. The Hospital’s net position increased by \$70,372, or 0.3 percent, in 2018 and \$488,631, or 2.5 percent in 2017, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Position

	2018	2017	2016
<i>Assets</i>			
Current assets	\$ 10,414,874	\$ 10,039,333	\$ 9,155,244
Capital assets, net	11,124,200	11,329,222	11,614,326
Other noncurrent assets	632,754	598,000	582,000
Total assets	\$ 22,171,828	\$ 21,966,555	\$ 21,351,570
<i>Liabilities and net position</i>			
Current liabilities	\$ 1,111,701	\$ 848,412	\$ 600,491
Long-term obligations, net of current maturities	577,798	706,186	827,753
Total liabilities	1,689,499	1,554,598	1,428,244
<i>Net position</i>			
Net investment in capital assets	10,403,131	10,488,486	10,649,490
Restricted	632,754	598,000	582,000
Unrestricted	9,446,444	9,325,471	8,691,836
Total net position	20,482,329	20,411,957	19,923,326
Total liabilities and net position	\$ 22,171,828	\$ 21,966,555	\$ 21,351,570

In 2018, current assets increased by \$375,541. Total assets for 2018 increased \$205,273 from 2017. Total assets for 2018 consist primarily of cash and cash equivalents, investments in certificates of deposit, net patient accounts receivable, and net capital assets. Total liabilities have increased by \$134,901 over the last year due primarily to increased Safety Net Care Pool reserves. Net position as a percentage of assets is at 92 percent at the end of 2018. Stated differently, liabilities (debt) for the Hospital are at 8 percent of assets at the end of 2018. The Hospital has a very strong balance sheet.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2018 and 2017

Operating Results and Changes in the Hospital's Net Position

In 2018, the Hospital's operating income decreased by \$376,042. Total operating revenues decreased by \$621,189, while total operating expenses decreased by \$245,147 in fiscal year 2018 as compared to fiscal year 2017. Total operating revenues decreased primarily due to steep decrease in Safety Net Care Pool revenue, as a result of the calendar year 2017 Safety Net Care Pool reconciliation.

Table 2. Operating Results and Changes in Net Position

	2018	2017	2016
<i>Operating revenues</i>			
Net patient service revenue	\$ 7,719,764	\$ 7,189,475	\$ 7,490,343
Retail pharmacy revenue	1,331,927	1,418,304	1,338,509
Safety net care pool	217,128	1,271,524	376,569
Electronic health records incentive payment	-	23,297	303,131
Grants and other operating revenue	57,759	45,167	56,592
Total operating revenues	9,326,578	9,947,767	9,565,144
<i>Operating expenses</i>			
Salaries, wages, and benefits	2,637,326	2,740,132	2,563,807
Professional fees	4,304,748	4,302,416	4,144,746
Depreciation and amortization	441,898	440,279	651,141
Other operating expenses	2,512,614	2,658,906	2,641,795
Total operating expenses	9,896,586	10,141,733	10,001,489
<i>Operating loss</i>	(570,008)	(193,966)	(436,345)
<i>Nonoperating revenues (expenses)</i>			
Mill levy revenue	655,024	632,183	589,919
Investment income (loss)	(33,395)	24,876	185,211
Other nonoperating revenue	57,600	58,900	56,290
Interest expense	(38,849)	(33,362)	(43,706)
Total nonoperating revenues, net	640,380	682,597	787,714
Change in net position	70,372	488,631	351,369
Net position, beginning of year	20,411,957	19,923,326	19,571,957
Net position, end of year	\$ 20,482,329	\$ 20,411,957	\$ 19,923,326

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

During the year, operating revenues decreased by \$621,189, or 6.2 percent. Operating expenses decreased by \$245,147, or 2.4 percent. The decrease in operating expenses is mostly due to a decrease in salaries, wages, and benefits due to staff turnover and a decrease in the cost of medical supplies brought on by better purchasing agreements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2018 and 2017

Consistent with the healthcare industry nationally, as well as in New Mexico, wages, payroll taxes, and employee benefits are typically the highest individual expense line items. Salary, wages, and employee benefits decreased in 2018 by \$102,806, or 3.8 percent. This decrease is based on some pharmacy, laboratory, radiology and nursing staff turnover and resulting temporary vacancies. Nevertheless, the healthcare labor market is still very competitive and healthcare providers must continually increase their salary and wage scales in order to attract, and then retain, caregivers. This presents an ongoing pressure on the operating results of providers.

Table 3. Budget to Actual

	Actual	Final Budget	Favorable (Unfavorable) Variance
Budgetary basis revenues	\$ 9,966,958	\$ 10,356,217	\$ (389,259)
Budgetary basis expenses	9,896,586	10,224,743	328,157
Excess of revenues over expenses	\$ 70,372	\$ 131,474	\$ (61,102)

Actual results compare unfavorably to budgeted amounts for the Hospital due to actual revenues being \$389,259 less than budgeted, while actual expenses were \$328,157 less than budgeted. This results in a negative variance of \$61,102 with net income totaling \$70,372, as compared to budgeted net income of \$131,474, as shown in Table 3.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the Hospital had \$11,124,200 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the basic financial statements. In 2018, the Hospital purchased new assets costing \$236,876. The additions are primarily for equipment.

Debt

At June 30, 2018, the Hospital had \$577,798 in long-term debt obligations, a decrease of \$128,388, or 18.2 percent, from June 30, 2017. This long-term debt obligation is for the 2011 construction of the facility.

The Hospital cannot issue formal debt issuances of revenue notes without approval of the Guadalupe County Commissioners. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2018 and 2017

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, is noted in billings submitted to Medicare or Medicaid. There has been no such activity detected at the Hospital.

There will continue to be significant pressure on net patient service revenues in the future. Changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Hospital. Negotiations with other third-party payors regarding payment for services provided to these payors' insured members are critical to maintaining the Hospital's financial position. These third-party payors are facing increasing pressures on their own operating results. In addition, there are still some costs related to providing care to uninsured patients in spite of the uninsured rate falling below 4 percent. This is primarily due to providing care to transient populations that tend to be uninsured. Ultimately, economic conditions, not only in Guadalupe County, but across state lines, 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 increasing.

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 finance department at 117 Camino de Vida, Suite 100, Santa Rosa, New Mexico 88435.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Net Position
June 30, 2018 and 2017

ASSETS	2018	2017
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,011,585	\$ 1,359,130
Investments	8,107,752	6,889,247
Receivables:		
Patient accounts receivable, net	911,204	1,225,186
Estimated third-party payor settlements	24,782	-
Safety net care pool	-	80,624
Taxes	11,365	10,397
Other	239	-
Inventories	306,192	391,294
Prepaid expenses	41,755	83,455
Total current assets	10,414,874	10,039,333
<i>Noncurrent assets</i>		
Certificates of deposit restricted by New Mexicare management agreement	505,754	500,000
Cash and cash equivalents restricted by USDA loan agreement	127,000	98,000
Capital assets, net	11,124,200	11,329,222
Total noncurrent assets	11,756,954	11,927,222
Total assets	\$ 22,171,828	\$ 21,966,555

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Net Position (Continued)
June 30, 2018 and 2017

LIABILITIES AND NET POSITION	2018	2017
<i>Current liabilities</i>		
Accounts payable	\$ 228,884	\$ 299,228
Accrued compensation and related liabilities	76,282	79,193
Compensated absences	79,305	81,123
Estimated third-party payor settlements	-	254,318
Safety net care pool	583,959	-
Accrued interest payable	15,618	12,983
Current maturities of revenue bonds payable	127,653	121,567
Total current liabilities	1,111,701	848,412
<i>Noncurrent liabilities</i>		
Revenue bonds payable, net of current portion	577,798	706,186
Total liabilities	1,689,499	1,554,598
<i>Net position</i>		
Net investment in capital assets	10,403,131	10,488,486
Restricted	632,754	598,000
Unrestricted	9,446,444	9,325,471
Total net position	20,482,329	20,411,957
Total liabilities and net position	\$ 22,171,828	\$ 21,966,555

See accompanying notes to basic financial statements.

Guadalupe County Hospital**A Component Unit of Guadalupe County, New Mexico
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017**

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 7,719,764	\$ 7,189,475
Retail pharmacy revenue	1,331,927	1,418,304
Safety net care pool	217,128	1,271,524
Electronic health records incentive payment	-	23,297
Grant income	53,255	30,127
Other	4,504	15,040
Total operating revenues	9,326,578	9,947,767
<i>Operating expenses</i>		
Salaries and wages	2,082,039	2,148,983
Employee benefits	555,287	591,149
Professional fees	4,304,748	4,302,416
Retail pharmacy supplies	1,038,079	1,096,051
Other supplies	692,456	830,970
Utilities	133,064	127,682
Repairs and maintenance	162,012	162,004
Depreciation	441,898	440,279
Insurance	113,185	105,306
Management fees	240,000	240,000
Other	133,818	96,893
Total operating expenses	9,896,586	10,141,733
<i>Operating loss</i>	(570,008)	(193,966)
<i>Nonoperating revenues (expenses)</i>		
Mill levy revenue	655,024	632,183
Investment income (loss)	(33,395)	24,876
Rental income	57,600	58,900
Interest expense	(38,849)	(33,362)
Total nonoperating revenues, net	640,380	682,597
Change in net position	70,372	488,631
Net position, beginning of year	20,411,957	19,923,326
Net position, end of year	\$ 20,482,329	\$ 20,411,957

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 7,754,646	\$ 7,248,283
Cash received from retail pharmacy	1,331,927	1,418,304
Cash received from safety net care pool provider payments	881,711	1,231,731
Cash received from electronic health records incentive payments	-	23,297
Cash received from operating grants	53,016	48,124
Cash received from other revenue	4,504	15,040
Cash paid to and on behalf of employees	(2,642,055)	(2,726,368)
Cash paid to suppliers and contractors	(6,760,904)	(7,022,535)
Net cash provided by operating activities	622,845	235,876
<i>Cash flows from noncapital financing activities</i>		
Cash received from mill levies	654,056	631,802
<i>Cash flows from capital and related financing activities</i>		
Principal payments on revenue bonds	(122,302)	(116,166)
Interest paid	(36,214)	(41,296)
Purchase of capital assets	(236,876)	(155,175)
Net cash used in capital and related financing activities	(395,392)	(312,637)
<i>Cash flows from investing activities</i>		
Interest received	139,592	24,876
Cash received from rental activities	57,600	58,900
Purchase of investments	(2,149,910)	(5,875,268)
Proceeds from sale of investments	752,664	5,608,521
Net cash used in investing activities	(1,200,054)	(182,971)
Net increase (decrease) in cash and cash equivalents	(318,545)	372,070
Cash and cash equivalents, beginning of year	1,457,130	1,085,060
Cash and cash equivalents, end of year	\$ 1,138,585	\$ 1,457,130

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
<i>Reconciliation of cash and cash equivalents to the statements of net position</i>		
Cash and cash equivalents	\$ 1,011,585	\$ 1,359,130
Cash and cash equivalents restricted by USDA loan agreement	127,000	98,000
Total cash and cash equivalents	\$ 1,138,585	\$ 1,457,130
<i>Reconciliation of operating loss to net cash provided by operating activities</i>		
Operating loss	\$ (570,008)	\$ (193,966)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	441,898	440,279
Provision for bad debts	662,109	735,550
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(348,127)	(931,060)
Estimated third-party payor settlements	(24,782)	-
Safety net care pool	80,624	(39,793)
Other	(239)	17,997
Inventories	85,102	(4,896)
Prepaid expenses	41,700	(38,689)
Increase (decrease) in liabilities:		
Accounts payable	(70,344)	(17,628)
Accrued compensation and related liabilities	(2,911)	9,488
Compensated absences	(1,818)	4,276
Estimated third-party payor settlements	(254,318)	254,318
Safety net care pool	583,959	-
Net cash provided by operating activities	\$ 622,845	\$ 235,876

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements
Years Ended June 30, 2018 and 2017

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Guadalupe County Hospital (the Hospital) is a 10-bed county-owned acute care hospital located in Santa Rosa, New Mexico. The Hospital provides inpatient, outpatient, and emergency medical care services for residents of Guadalupe County (the County), as well as operates an onsite retail pharmacy.

The Board of County Commissioners of the County affirms the Hospital Board of Directors, and the Hospital may not issue debt without the County's approval. For this reason, the Hospital is considered to be a component unit of Guadalupe County, New Mexico. As organized, the Hospital is exempt from federal and state income taxes. There are no component units of the Hospital.

The Hospital has a management agreement with New Mexicare, Inc. (New Mexicare), a nonprofit healthcare management company, to supervise and direct the Hospital's daily operations. According to the agreement, the Hospital is to maintain a \$500,000 cash reserve in the event of hospital default. The management agreement in effect through December 31, 2021, stipulates that the Hospital pays New Mexicare a flat monthly fee of \$12,000 for management and pays the County \$8,000 per month for administrative services.

b. 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 the 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 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. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less.

Investments – Investments are recorded at fair value. Fair value is determined using quoted market prices.

Inventories – Inventories consist of medical, pharmaceutical, and laboratory supplies and are stated at cost using the first-in, first-out method.

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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents restricted by USDA loan agreement – The Hospital’s revenue bonds with the United States Department of Agriculture require the Hospital to establish a reserve account, and each year set aside into that account an amount at least equal to one-tenth of one yearly payment. Written approval must be obtained from Rural Development, Community Programs to utilize any of the reserve.

Compensated absences – The liability for compensated absences consists of unpaid, accumulated annual personal leave balances. The liability has been calculated using the vesting method, whereby leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Employees can accumulate as many hours as they wish throughout the year and upon termination they will be paid out all vacation hours earned to date regardless of balance, until calendar year end when any excess over 120 hours is forfeited.

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 in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Operating revenues and expenses – The Hospital’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the Hospital’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, 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 state of New Mexico and others, 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 are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the Hospital’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

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 Board of Directors and the County Commissioners for approval. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Directors and County Commissioners. 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 County Commissioners.

Upcoming accounting standards pronouncements – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the Hospital’s year ending June 30, 2019, although earlier application is encouraged. The Hospital has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the Hospital’s year ending June 30, 2021, although earlier application is encouraged. The Hospital has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standards pronouncements (continued) – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the Hospital's year ending June 30, 2019, although earlier application is encouraged. The Hospital has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

Subsequent events – The Hospital has evaluated subsequent events through September 25, 2018, the date on which the financial statements were available to be issued.

2. Deposits and Investments:

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it.

The Hospital's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. In accordance with Section 6-10-17 NMSA 1978 Compilation, the Hospital is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

Of the Hospital's total deposits of \$9,807,219 and \$8,939,315 at June 30, 2018 and 2017, respectively, a total of \$-0- was uninsured and uncollateralized, and therefore subject to custodial credit risk.

Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper, and bankers' acceptances.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

2. Deposits and Investments (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 for similar investments (Level 2 input).

The Hospital’s investments are as follows:

	2018					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
<i>Held at County</i>						
Certificates of deposit	\$ 505,754	\$ 505,754	\$ -	\$ -	\$ -	Not applicable
<i>Wells Fargo</i>						
Money market	9,355	9,355	-	-	-	Not applicable
<i>Moreton Capital Markets</i>						
Certificates of deposit	8,098,397	1,002,501	7,095,896	-	-	Not applicable
Total investments	\$ 8,613,506	\$ 1,517,610	\$ 7,095,896	\$ -	\$ -	-

	2017					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
<i>Held at County</i>						
Certificates of deposit	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	Not applicable
<i>Wells Fargo</i>						
Money market	115,621	115,621	-	-	-	Not applicable
<i>Moreton Capital Markets</i>						
Certificates of deposit	6,773,626	752,664	6,020,962	-	-	Not applicable
Total investments	\$ 7,389,247	\$ 1,368,285	\$ 6,020,962	\$ -	\$ -	-

Reconciliation of investments to the statements of net position

	2018	2017
Investments	\$ 8,107,752	\$ 6,889,247
Certificates of deposit restricted by New Mexicare Management agreement	505,754	500,000
Total investments	\$ 8,613,506	\$ 7,389,247

Certificates of deposit held at County – The management agreement between the Hospital and New Mexicare requires the County to maintain a reserve in the amount of \$500,000 for Hospital operations. The schedule of pledged collateral for the funds held by the County is unavailable because the bank commingles pledged collateral for all funds it holds. The County monitors pledged collateral for all of its funds to ensure all holdings are adequately collateralized.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2018	2017
Receivable from patients and their insurance carriers	\$ 1,040,351	\$ 1,157,928
Receivable from Medicare	212,748	438,444
Receivable from Medicaid	107,400	166,651
Total patient accounts receivable	1,360,499	1,763,023
Less allowance for uncollectible accounts	449,295	537,837
Net patient accounts receivable	\$ 911,204	\$ 1,225,186

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

4. Capital Assets:

In accordance with Section 12-6-10 NMSA 1987, the Hospital capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least one year. 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:

Land improvements	10 years
Buildings and improvements	40 years
Equipment	3 to 20 years

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

	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 187,363	\$ -	\$ -	\$ -	\$ 187,363
Total capital assets not being depreciated	187,363	-	-	-	187,363
<i>Capital assets being depreciated</i>					
Land improvements	242,648	-	-	-	242,648
Buildings and improvements	12,420,886	-	-	-	12,420,886
Equipment	2,328,169	236,876	-	-	2,565,045
Total capital assets being depreciated	14,991,703	236,876	-	-	15,228,579
<i>Less accumulated depreciation for</i>					
Land improvements	(128,016)	(23,349)	-	-	(151,365)
Buildings and improvements	(1,867,509)	(316,856)	-	-	(2,184,365)
Equipment	(1,854,319)	(101,693)	-	-	(1,956,012)
Total accumulated depreciation	(3,849,844)	(441,898)	-	-	(4,291,742)
Total capital assets being depreciated, net	11,141,859	(205,022)	-	-	10,936,837
Capital assets, net of accumulated depreciation	\$ 11,329,222	\$ (205,022)	\$ -	\$ -	\$ 11,124,200

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

4. Capital Assets (continued):

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 187,363	\$ -	\$ -	\$ -	\$ 187,363
Total capital assets not being depreciated	187,363	-	-	-	187,363
<i>Capital assets being depreciated</i>					
Land improvements	242,648	-	-	-	242,648
Buildings and improvements	12,375,001	45,885	-	-	12,420,886
Equipment	2,218,879	109,290	-	-	2,328,169
Total capital assets being depreciated	14,836,528	155,175	-	-	14,991,703
<i>Less accumulated depreciation for</i>					
Land improvements	(104,667)	(23,349)	-	-	(128,016)
Buildings and improvements	(1,552,947)	(314,562)	-	-	(1,867,509)
Equipment	(1,751,951)	(102,368)	-	-	(1,854,319)
Total accumulated depreciation	(3,409,565)	(440,279)	-	-	(3,849,844)
Total capital assets being depreciated, net	11,426,963	(285,104)	-	-	11,141,859
Capital assets, net of accumulated depreciation	\$ 11,614,326	\$ (285,104)	\$ -	\$ -	\$ 11,329,222

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

5. Noncurrent Liabilities:

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

	2018					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
Revenue bonds payable	\$ 827,753	\$ -	\$ (122,302)	\$ 705,451	\$ 127,653	
Compensated absences	81,123	94,548	(96,366)	79,305	79,305	
Total long-term debt	\$ 908,876	\$ 94,548	\$ (218,668)	\$ 784,756	\$ 206,958	

	2017					Amounts Due Within One Year
	Beginning Balance	Additions	Decreases	Ending Balance		
Revenue bonds payable	\$ 943,919	\$ -	\$ (116,166)	\$ 827,753	\$ 121,567	
Compensated absences	76,847	92,837	(88,561)	81,123	81,123	
Total long-term debt	\$ 1,020,766	\$ 92,837	\$ (204,727)	\$ 908,876	\$ 202,690	

Long-term debt – The terms and due dates of the Hospital's long-term debt are as follows:

- Guadalupe County, New Mexico Hospital Improvement Revenue Bonds, dated December 28, 2011, in the original amount of \$3,550,000, for the purpose of improvements and expansion of the Hospital's facilities. Payments of \$158,516, including 4.375 percent interest, are payable annually on December 28. The bonds were purchased by the United States Department of Agriculture under the provisions of the Consolidated Farm and Rural Development Act. The bonds are secured by the Hospital's net revenue and payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

Annual principal and interest payments over the terms of long-term debt are as follows:

Years Ending June 30,	Principal	Interest	Total Payments
2019	\$ 127,653	\$ 31,523	\$ 159,176
2020	132,662	25,854	158,516
2021	138,584	19,932	158,516
2022	144,770	13,746	158,516
2023	161,782	7,284	169,066
	\$ 705,451	\$ 98,339	\$ 803,790

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

6. 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 uninsured patients will be unable or unwilling to pay for the services provided. The Hospital's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2018	2017
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 3,265,044	\$ 3,339,000
Medicaid/Centennial Care	920,273	1,045,250
Other third-party payors	3,657,300	2,974,536
Patients	664,430	646,102
	8,507,047	8,004,888
Less:		
Charity care	125,174	79,863
Provision for bad debts	662,109	735,550
Net patient service revenue	\$ 7,719,764	\$ 7,189,475

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed for some items at a tentative rate with final settlement determined after 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 the MCOs, inpatient and outpatient services are paid at prospectively determined rates per discharge and fee schedules.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

6. Net Patient Service Revenue (continued):

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue increased approximately \$37,000 and decreased approximately \$254,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

The Hospital provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Hospital's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and 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 \$51,000 and \$35,000, respectively. The Hospital did not receive any gifts or grants to subsidize charity care services during 2018 and 2017. The safety net care pool subsidizes services to uninsured patients and unreimbursed Medicaid costs.

7. 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 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 \$54,000 in 2018 and decreased by approximately \$35,000 in 2017, due to differences between original estimates and final settlements or revised estimates.

8. Mill Levy Tax:

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 \$655,000 and \$632,000 in 2018 and 2017, respectively. Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

9. Retirement Plans:

The Hospital has a deferred compensation plan created in accordance with Internal Revenue Code §457. The name of the plan is Guadalupe County Hospital 457(b) Governmental Deferred Compensation Plan (the Compensation Plan). The Compensation Plan is available to all employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Employee contributions are immediately fully vested. Employee contributions to the Compensation Plan totaled approximately \$74,000 and \$89,000 for the years ended June 30, 2018 and 2017, respectively.

The Hospital provides a 401(a) profit-sharing pension plan for all employees with at least 90 days of service. The name of the plan is Guadalupe County Hospital 401(a) Plan (the Plan). The Hospital makes a contribution match of up to 3 percent of the employee's base wage. Employer contributions to the Plan are discretionary and are fully vested once the employee is eligible to participate in the Plan. The Hospital funds all retirement contributions and employees are not allowed to contribute to the Plan. Employer contributions to the Plan totaled approximately \$34,000 and \$41,000 for the years ended June 30, 2018 and 2017, respectively.

The plans are administered by the Hospital. The Hospital has the authority to amend the plans.

10. Risk Management and Contingencies:

Medical malpractice claims – The Hospital has professional liability insurance coverage with Endurance American Specialty. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the Hospital purchases insurance to cover prior acts. The current professional liability insurance provides \$3,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$5,000 deductible per claim.

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; natural disasters; and employee health, dental, and accident benefits. 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.

Industry regulations – The healthcare 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, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare 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 statutes, as well as other applicable government laws and regulations.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

10. Risk Management and Contingencies (continued):

Industry regulations (continued) – 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.

11. Concentration of Risk:

Patient accounts receivable – The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Guadalupe County.

The mix of receivables from patients and third-party payors was as follows:

	2018	2017
Medicare	21 %	21 %
Medicaid/Centennial Care	20	25
Patients	12	13
Commercial and other	47	41
	100 %	100 %

Physicians – The Hospital is dependent on local physicians practicing 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 changes in their utilization patterns may have an adverse effect on hospital operations.

SUPPLEMENTAL INFORMATION

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Pledged Collateral
June 30, 2018

	First National Bank of New Mexico	Moreton Capital Markets	Wells Fargo
Deposits at June 30, 2018	\$ 820,489	\$ 8,107,752	\$ 878,878
Less: Fair value adjustment	-	32,987	-
Less: CDs held by Moreton Capital Markets and fully insured under FDIC limits	-	8,074,765	-
Less: CDs held by Guadalupe County and fully collateralized	-	-	505,754
Less: FDIC insurance	250,000	-	250,000
Uninsured public funds	570,489	-	123,124
Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name	1,000,000	-	372,150
Total uninsured and uncollateralized public funds	\$ (429,511)	\$ -	\$ (249,026)
50 percent pledged collateral requirement per statute	\$ 285,245	\$ -	\$ 61,562
Total pledged collateral	1,000,000	-	372,150
Pledged collateral over the requirement	\$ 714,755	\$ -	\$ 310,588

	Fair Value		
	First National Bank of New Mexico	Moreton Capital Markets	Wells Fargo
Security			
Federal Home Loan Bank of Dallas irrevocable stand by letter of credit	\$ 1,000,000	\$ -	\$ -
FMAC FGPC, CUSIP 3128PWMK1, matures September 1, 2026	-	-	360,476
FNMA FNMS, CUSIP 3138M0CQ1, matures September 1, 2042	-	-	11,674
Total pledged securities	\$ 1,000,000	\$ -	\$ 372,150

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Individual Deposit and Investment Accounts
June 30, 2018

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
First National Bank of New Mexico	Checking	Interest bearing checking	\$ 416,010	\$ -	\$ -	\$ 416,010
First National Bank of New Mexico	Checking	Interest bearing checking	404,479	-	-	404,479
Wells Fargo	Checking	Interest bearing checking	373,124	-	55,128	317,996
Cash on hand	Petty cash	Petty cash	100	-	-	100
Investments						
Moreton Capital Markets	Investment Portfolio	Cash, Money Market, Certificates of Deposit	8,107,752	-	-	8,107,752
Wells Fargo	CDs at County	Certificates of Deposit	505,754	-	-	505,754
Total deposits and investments			\$ 9,807,219	\$ -	\$ 55,128	\$ 9,752,091

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2018

	Actual	Original and Final Budget	Variance with Final Budget - Favorable (Unfavorable)
<i>Revenues</i>			
Net patient service revenue	\$ 7,719,764	\$ 7,280,778	\$ 438,986
Retail pharmacy revenue	1,331,927	1,449,918	(117,991)
Safety net care pool	217,128	671,439	(454,311)
Electronic health records incentive payment	-	156,787	(156,787)
Other	57,759	29,300	28,459
Nonoperating revenues, net	640,380	767,995	(127,615)
Total revenues	9,966,958	10,356,217	(389,259)
<i>Expenses</i>			
	9,896,586	10,224,743	328,157
Change in net position	\$ 70,372	\$ 131,474	\$ (61,102)

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Indigent Care Cost and Funding Report
Year Ended June 30, 2018

	For years ended June 30,		
	2018	2017	2016
A Funding for Indigent Care			
A1 State appropriations specified for indigent care – Out of County Indigent Fund	\$ -	\$ -	\$ -
A2 County indigent funds received	-	-	-
A3 Out of county indigent funds received	-	-	-
A4 Payments and copayments received from uninsured patients qualifying for indigent care	-	-	-
A5 Reimbursement received for services provided to patients qualifying for coverage under EMSA	-	-	-
A6 Charitable contributions received from donors that are designated for funding indigent care	-	-	-
Other Sources			
A7 Other source 1 (if applicable)	-	-	-
Total Funding for Indigent Care	<u>-</u>	<u>-</u>	<u>-</u>
B Cost of Providing Indigent Care			
Total cost of care for providing services to:			
B1 Uninsured patients qualifying for indigent care	51,321	34,556	50,050
B2 Patients qualifying for coverage under EMSA	-	-	-
B3 Cost of care related to patients portion of bill for insured patients qualifying for indigent care	-	-	-
B4 Direct costs paid to other providers on behalf of patients qualifying for indigent care	-	-	-
	<u>51,321</u>	<u>34,556</u>	<u>50,050</u>
Shortfall of Funding for Indigent Care to Cost of Providing Indigent Care	<u>\$ (51,321)</u>	<u>\$ (34,556)</u>	<u>\$ (50,050)</u>
C Patients Receiving Indigent Care Services			
C1 Total number of patients receiving indigent care	264	225	227
C2 Total number of patients encounters receiving indigent care	649	525	513

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Indigent Care Cost and Funding Report (Continued)
Year Ended June 30, 2018

	For years ended June 30,		
	2018	2017	2016
<i>Uninsured patients qualifying for indigent care</i>			
Charges for these patients	\$ 125,174	\$ 79,863	\$ 101,826
Ratio of cost to charges	41%	43%	49%
Cost for uninsured patients qualifying for indigent care	<u>\$ 51,321</u>	<u>\$ 34,556</u>	<u>\$ 50,050</u>
<i>Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)</i>			
Charges for these patients	\$ -	\$ -	\$ -
Ratio of cost to charges	41%	43%	49%
Cost for patients qualifying for coverage under EMSA	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Cost of care related to patient portion of bill for insured patients qualifying for indigent care</i>			
Indigent care adjustments for these patients	\$ -	\$ -	\$ -
Ratio of cost to charges	41%	43%	49%
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Direct costs paid to other providers on behalf of patients qualifying for indigent care</i>			
Payments to other providers for care of these patients	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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

Board of Directors and Management of
Guadalupe County Hospital and
Mr. Wayne Johnson, New Mexico State Auditor
Santa Rosa, 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 Guadalupe County Hospital, a component unit of Guadalupe County, New Mexico (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 September 25, 2018. We have also audited the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2018, presented as supplemental information as listed in the table of contents.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
September 25, 2018

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

The audit for the year ended June 30, 2017, reported no audit findings, nor were there any unresolved findings from periods ended June 30, 2016, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2018.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Exit Conference
Year Ended June 30, 2018

An exit conference was held September 25, 2018, with the Board of Directors to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Keith Ross	Board Chair
Christina Campos	Administrator
Tom Dingus	Dingus, Zarecor & Associates PLLC

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