PORCH & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

GUADALUPE COUNTY HOSPITAL

Financial Statements, Supplementary Information
and
Independent Auditors' Reports

June 30, 2008 and 2007

GUADALUPE COUNTY HOSPITAL

TABLE OF CONTENTS

GUADALUPE COUNTY HOSPITAL

JUNE 30, 2008

BOARD OF DIRECTORS AND PRINCIPAL EMPLOYEES

Board of Directors

Tom Dodge	Chairman
Robert Cordova	Vice Chairman
Loretta Lopez	Secretary/Treasurer
Danita Agar	Member
David Sheehan	Member

Principal Employees

Christina Campos	Administrator

Independent Auditors' Report

Mr. Hector H. Balderas, State Auditor and
the Board of Directors and Management
Guadalupe County Hospital

We have audited the accompanying financial statements of the business-type activities of Guadalupe County Hospital (Hospital), a component unit of Guadalupe County, as of and for the year ended June 30, 2008, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the statements of revenues, expenses and changes in net assets - budget and actual as listed in the table of contents. These financial statements and supplemental schedules are the responsibility of the Hospital's management. Our responsibility is to express opinions on these financial statements and supplemental schedules based on our audit. The financial statements of the Hospital for the year ended June 30, 2007 were audited by other auditors whose report, dated November 12, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital as of June 30, 2008 and 2007, and the changes in financial position and cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedules referred to above present fairly, in all material respects, the respective the respective budgetary comparison of the Hospital in conformity with accounting principles generally accepted in the United States of America.

Mr. Hector H. Balderas, State Auditor and
the Board of Directors and Management
Guadalupe County Hospital

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2008, 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 testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Hospital taken as a whole and on the combining statements and budgetary comparison presented as Supplementary Information. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Porch & Associates LLC

Albuquerque, New Mexico
November 2, 2008

This section of the financial report presents our discussion and analysis of Guadalupe County Hospital's (the "Hospital") financial performance during the fiscal year that ended June 30, 2008. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information about the Hospital and its activities in a way that helps answer the question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Hospital's net assets represent the difference between its assets and liabilities and are one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors need to be considered, however, such as changes in the Medicare or Medicaid rates charged for patient services, census days, building repairs, insurance, and equipment replacement/repair.

The Hospital's total assets increased $598,526 from a year ago. This increase in total assets is due primarily to the following:

- Cash and cash equivalents grew by $614653 due to increased revenues.

TABLE 1
NET ASSETS

		2008	2007
Current assets	$	**3,372,649**	2,774,763
Noncurrent assets		**82,522**	70,299
Total assets	$	**3,455,171**	2,845,062
Current liabilities	$	**247,054**	235,471
Net assets			
Invested in capital assets		**82,522**	70,299
Unrestricted		**3,125,595**	2,539,292
Total net assets		**3,208,117**	2,609,591
Total liabilities and net assets	$	**3,455,171**	2,845,062

The Hospital's total operating revenues increased by $329,641 from a year ago due to increases in patient volumes.

Total operating expenses increased by $180,943 from the prior year.

Salaries, wages, and employee benefits increased $251,472 due to a 3% cost of living adjustment and additional personnel in nursing and radiology and a higher employer cost share of employee health insurance.

TABLE 2
NET ASSETS

		2008	2007
Total operating revenue	$	**3,526,282**	3,196,641
Total operating expenses		**3,560,523**	3,379,580
Operating Loss		**(34,241)**	(182,939)
Other revenues		**632,767**	464,323
Change in net assets		**598,526**	281,384
Beginning net assets		**2,609,591**	2,328,207
Total net assets, end of year	$	**3,208,117**	2,609,591

As the Hospital completed the year, total net assets increased by $598,526 to $3,208,117 from the $2,609,591 of a year ago.

Budgetary Highlights

Total net patient service revenue was over budget by $331,038 due to higher than anticipated patient volumes. Expenses also exceeded budget by $104,755 due to the increased volumes.

Capital Assets

At the end of fiscal year 2008, the Hospital had $82,522 net of depreciation, invested in capital assets, as compared with $70,299 at the end of fiscal year 2007. The Hospital has a very small amount of capital invested in plant and equipment. See Note 6 to the basic financial statements for more details about capital asset activity.

Economic Factors and Next Year's Budgets and Rates

Key factors affecting next year's revenue and expenses are as follows:

Based on licensed bed capacity and prior trends, revenue is projected at $4,285,182 consistent with fiscal year 2008. There is a price and a volume increase in net revenue of 8% anticipated.

All personnel are to receive a 3% increase commencing July 1, 2008.

Overall expenses are budgeted to grow at 6.7%, slightly less than volume and price increases.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's Board of Directors, customers, and the citizens of Guadalupe County with a general overview of the Hospital's finances and to show the Hospital's financial accountability. If you have any questions about this report or need additional financial information, contact:

Guadalupe County Hospital
720 Lake Drive
Santa Rosa, NM 88435
(505) 472-3417

GUADALUPE COUNTY HOSPITAL
BALANCE SHEETS
June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ **2,809,524**	2,194,871
Patient accounts receivable, net	**412,823**	382,446
Other receivables	**7,762**	64,521
Supplies inventory and other current assets	**142,540**	132,925
Total current assets	**3,372,649**	2,774,763
Capital assets, net	**82,522**	70,299
Total assets	$ **3,455,171**	2,845,062
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ **117,996**	106,217
Accrued payroll and related liabilities	**90,911**	71,744
Estimated third-party payor settlements	**38,147**	57,510
Total current liabilities	**247,054**	235,471
Net Assets		
Invested in capital assets	**82,522**	70,299
Unrestricted	**3,125,595**	2,539,292
Total net assets	**3,208,117**	2,609,591
Total liabilities and net assets	$ **3,455,171**	2,845,062

The accompanying notes are an integral part of these financial statements.

GUADALUPE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Net patient service revenue	$ 3,427,902	3,089,083
Other revenue	98,380	107,558
Total operating revenues	3,526,282	3,196,641
Operating Expenses		
Medical fees	1,010,301	1,105,532
Salaries and wages	1,215,976	1,061,488
Supplies	484,912	479,333
Employee benefits	315,483	218,727
Management fees	232,715	214,525
Repairs and maintenance	80,600	90,133
Insurance	67,063	80,155
Utilities	49,920	43,514
Rents and leases	36,268	36,777
Other	46,679	28,514
Depreciation	20,606	20,882
Total operating expenses	3,560,523	3,379,580
Operating loss	(34,241)	(182,939)
Nonoperating Revenue (Expense)		
Loss on disposal of capital assets	-	(2,750)
Contribution for future hospital site road construction	-	(100,266)
Other non-operating expenses	(4,175)	-
Mill levy (property taxes)	413,965	383,115
Sole community provider	222,977	184,224
Total nonoperating revenue (expense)	632,767	464,323
Change in net assets	598,526	281,384
Total net assets, beginning of year	2,609,591	2,328,207
Total net assets, end of year	$ 3,208,117	2,609,591

The accompanying notes are an integral part of these financial statements.

GUADALUPE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

		2008	2007
Cash Flows From Operating Activities			
Cash received from patients and third-party payors	$	**3,484,798**	2,541,039
Cash paid to suppliers		**(2,010,238)**	(1,622,568)
Cash paid to employees		**(1,512,292)**	(1,275,049)
Net cash provided by operating activities		**(37,732)**	(356,578)
Cash Flows From Non-Capital and Related Financing Activities			
Contribution for future hospital site road construction		**-**	(100,266)
Mill levy (property taxes)		**410,615**	495,718
Sole community provider		**274,830**	176,923
Net cash provided by Non-Capital and Related Financing Activities		**685,445**	572,375
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets		**(33,060)**	(7,501)
Net increase in cash		**614,653**	208,296
Cash, beginning of year		**2,194,871**	1,986,575
Cash, end of year	$	**2,809,524**	2,194,871
Reconciliation of Increase in Operating Income to Net Cash Provided by Operating Activities			
Operating loss	$	**(34,241)**	(248,646)
Adjustments to reconcile increase in operating income to net cash provided by operating activities			
Depreciation		**20,606**	20,882
Provision for bad debts		**588,159**	504,024
Changes in assets and liabilities:			
Patient accounts receivable, net		**(618,536)**	(500,851)
Other receivables		**4,312**	12,436
Supplies inventory and other current assets		**(9,615)**	(32,311)
Accounts payable and accrued expenses		**30,946**	(10,632)
Estimated third-party payor settlements		**(19,363)**	(101,480)
Net cash used by operating activities	$	**(37,732)**	(356,578)

The accompanying notes are an integral part of these financial statements.

GUADALUPE COUNTY HOSPITAL
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
Year Ended June 30, 2008

	Original Budget	Revised Budget	Actual	Variance with Final Budget - Positive (Negative)
Operating Revenues				
Net patient service revenue	$ 3,040,197	3,040,197	**3,427,902**	387,705
Other	123,646	123,646	**98,380**	(25,266)
Total operating revenues	3,163,843	3,163,843	**3,526,282**	362,439
Operating expenses				
Medical fees	991,339	991,339	**1,010,301**	(18,962)
Salaries and wages	1,182,979	1,182,979	**1,215,976**	(32,997)
Supplies	506,952	506,952	**484,912**	22,040
Employee benefits	247,371	247,371	**315,483**	(68,112)
Management fees	225,371	225,371	**232,715**	(7,344)
Repairs and maintenance	73,011	73,011	**80,600**	(7,589)
Insurance	83,639	83,639	**67,063**	16,576
Utilities	46,202	46,202	**49,920**	(3,718)
Rents and leases	37,061	37,061	**36,268**	793
Other	37,020	37,020	**46,679**	(9,659)
Depreciation	24,823	24,823	**20,606**	4,217
Total operating expenses	3,455,768	3,455,768	**3,560,523**	(104,755)
Operating loss	(291,925)	(291,925)	**(34,241)**	257,684
Nonoperating Revenue (Expense)				
Other non-operating income	(300,000)	(300,000)	**(4,175)**	295,825
Mill levy (property taxes)	345,603	345,603	**413,965**	68,362
Sole community provider	249,100	249,100	**222,977**	(26,123)
Total nonoperating revenue (expense)	294,703	294,703	**632,767**	338,064
Change in net assets	$ 2,778	2,778	**598,526**	595,748
Net assets, beginning of year			**2,609,591**	
Net assets, end of year			**$ 3,208,117**	

GUADALUPE COUNTY HOSPITAL
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
Year Ended June 30, 2007

	Original Budget	Revised Budget	Actual	Variance with Final Budget - Positive (Negative)
Operating Revenues				
Net patient service revenue	$ 2,504,929	2,789,824	**3,023,376**	233,552
Other	119,725	119,725	**107,558**	(12,167)
Total operating revenues	2,624,654	2,909,549	**3,130,934**	221,385
Operating expenses				
Medical fees	997,251	1,048,089	**1,105,532**	(57,443)
Salaries and wages	1,057,773	1,119,428	**1,061,488**	57,940
Supplies	343,089	464,979	**479,333**	(14,354)
Employee benefits	209,701	209,701	**218,727**	(9,026)
Management fees	171,601	171,601	**214,525**	(42,924)
Repairs and maintenance	83,592	82,925	**90,133**	(7,208)
Insurance	77,525	77,525	**80,155**	(2,630)
Utilities	50,018	50,018	**43,514**	6,504
Rents and leases	77,738	29,781	**36,777**	(6,996)
Other	34,234	33,370	**28,514**	4,856
Depreciation	19,740	19,740	**20,882**	(1,142)
Total operating expenses	3,122,262	3,307,157	**3,379,580**	(72,423)
Operating loss	(497,608)	(397,608)	**(248,646)**	148,962
Nonoperating Revenue (Expense)				
Loss on disposal of capital assets	-	-	**(2,750)**	(2,750)
Contributions for future hospital site road construction	-	(100,000)	**(100,266)**	(266)
Mill levy (property taxes)	338,572	338,572	**383,115**	44,543
Sole community provider	160,071	160,071	**184,224**	24,153
Total nonoperating revenue (expense)	498,643	398,643	**464,323**	65,680
Change in net assets	$ 1,035	1,035	**215,677**	214,642
Net assets, beginning of year			**2,316,198**	
Net assets, end of year			**$ 2,531,875**	

NOTE 1. ORGANIZATION

Guadalupe County Hospital (Hospital) is a 10-bed county-owned acute care hospital located in Santa Rosa, New Mexico. The Hospital provides inpatient and outpatient medical care services for residents of Guadalupe County (County). The Hospital is a component unit of the County.

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 for Hospital operations and to reimburse New Mexicare for all costs related to the operations and maintenance of the Hospital. An amendment to the management agreement, dated April 24, 2003, stipulates a monthly fee to be paid to New Mexicare based on 4% of generated monthly gross revenues, excluding certain revenues. The amendment also stipulates a monthly fee to be paid to the County based on 1% of generated monthly gross revenues, excluding certain revenues. The agreement was renewed on June 20, 2007 for the period of July 1, 2007 through June 30, 2009.

The County may terminate the agreement, with or without cause, upon thirty (30) days written notice to New Mexicare, New Mexicare may terminate the agreement, with or without cause, upon ninety (90) days written notice to the County.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

Measurement Focus and Basis of Accounting. The accompanying financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards. The operations of the Hospital are presented in the accompanying basic financial statements as a single proprietary fund of the enterprise. The Hospital has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Hospital has elected to apply the provisions of all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. This option was initially provided in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* and was made permanent for enterprise funds such as the Hospital by GASB Statement No. 34.

Operating Revenues and Expenses. The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transaction associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including contributions received for purposes other than capital assets acquisitions, and additional sole community provider income, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Budgetary Data. The Board formally approves each year's budget. The approved budget is then presented to the County Commission. This does not, however, represent a legally binding budget.

Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The total balance in any single financial institution may at times exceed the $100,000 in FDIC coverage available to individual depositors. 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 $100,000 at each financial institution.

The Hospital does not have any deposits denominated in foreign currency.

Supplies Inventories. Supplies inventories consist of pharmaceutical, medical, and maintenance supplies valued at cost using the first-in, first-out method.

Capital Assets. The Hospital building is owned by the County and is included in the County's capitalized assets. The Hospital does not pay the County for the use of the building.

Acquisitions of capital assets with an initial individual cost of $5,000 and an estimated useful life in excess of one year are capitalized at cost. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of operations.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Furniture, fixtures and equipment	5 – 10 years

Contributions. From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operation purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported as nonoperating revenues and expenses.

Mill Levy. Property taxes are levied and collected by the Guadalupe County treasurer on behalf of the Hospital. The taxes are levied in November and payable in two installments, November 10th and April 10th. The County remits to the Hospital a percentage of the collections made during the month. Taxes are considered delinquent and subject to lien, penalty, and interest 30 days after the date on which they are due.

Donated Services and Goods. A substantial number of volunteers have donated hours to the Hospital's program services during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

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.

Vacation and Sick Leave. Hospital employees accrue vacation as a function of service. In the event of termination or retirement, an employee is reimbursed for accumulated vacation up to 240 hours. Employees with accumulated sick leave in excess of 600 hours may elect to be paid for 50% of such excess on an annual basis up to 120 hours (net 60 hours can be paid).

Net Patient Service Revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Estimated third-party payor settlement amounts included in the accompanying balance sheets approximate fair value.

Accounts Receivable Allowance. The allowance for doubtful patient accounts receivable is that amount which, in management's judgment, is considered adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. The Hospital calculates its allowance for doubtful accounts based on percentages of accounts receivable aging categories that consider historical write-offs by major payor categories over the past several years. Management believes that estimates made for the allowance for doubtful accounts are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts will change.

Additionally, the Hospital evaluates patient accounts receivable balances older than one year for possible write off. Accounts are considered uncollectible when there has been no recent payment activity and no other indication that payment will be received. Those balances that are considered uncollectible are written off.

Charity Care. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Bad debts are often indistinguishable from charity services and could also be considered a component of uncompensated care.

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets of capital assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Hospital or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Income Taxes. The Hospital is a political subdivision of the County; therefore, it is exempt from federal and state income taxes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications. Certain 2007 amounts have been reclassified to be consistent with the 2008 presentation. These reclassifications have no effect on the previously reported increase in net assets.

NOTE 3. DEPOSIT RISK DISCLOSURE

Custodial Credit Risk. Custodial credit risk is, in the event of the failure of a depository financial institution, the Hospital will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Hospital does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Hospital's name. As of June 30, 2008, the Hospital's bank balance total of $2,849,184 was exposed to credit risk in the amount of $2,149,184 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Hospital's name	$ 1,032,340
Uninsured and uncollateralized	$ 1,116,844

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 $100,000 at each financial institution (see Schedule of Pledged Collateral).

Credit Risk. The Hospital has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better rating, asset backed obligations with an AAA or better rating, or repurchase agreements.

NOTE 4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable at June 30, are summarized below:

	2008	2007
Gross patient accounts receivable	**1,292,232**	1,070,553
Allowance for doubtful accounts and contractual allowances	**(879,409)**	(688,107)
Net patient accounts receivable	**$ 412,823**	382,446

NOTE 5. OTHER RECEIVABLES

Other receivables consist mainly of amounts receivable from the mill levy and sole community provider funds. Other receivables are deemed to be fully collectible. Accordingly, no allowance for doubtful accounts has been provided.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the Hospital for the year ended June 30, 2008 was as follows:

	2008			
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Capital assets being depreciated:				
Equipment	**$ 456,115**	**33,060**	**-**	**489,175**
Less accumulated depreciation for equipment	**(385,816)**	**(20,837)**	**-**	**(406,653)**
Capital assets, net	**$ 70,299**	**12,223**	**-**	**82,522**

Capital asset activity for the Hospital for the year ended June 30, 2007 was as follows:

	2007			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Equipment	$ 466,581	7,501	(17,967)	456,115
Less accumulated depreciation for equipment	(380,151)	(20,882)	15,217	(385,816)
Capital assets, net	$ 86,430	(13,381)	(2,750)	70,299

NOTE 7. NET PATIENT SERVICE REVENUE

Agreements with third-party payors provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others 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.

NOTE 7. NET PATIENT SERVICE REVENUE (CONTINUED)

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

Medicare. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid 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. The State of New Mexico (State) administers its Medicaid program through contracts with three 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 health care to its members. This arrangement is commonly referred to as "SALUD!". Through the Hospital's contracts with the MCOs, inpatient acute care services are primarily paid at per diem rates varying according to the level of inpatient services provided. Outpatient services are paid as a percentage of charges.

Medicare and Medicaid cost report liabilities are as follows at June 30, 2008:

	Amount	Status
Medicare		
2007	$ 5,000	Tentative settlement
2008	10,000	Not filed
	15,000	
Medicaid		
2005	7,510	Unaudited
2006	-	Unaudited
2007	5,637	Unaudited
2008	10,000	Not filed
	23,147	
Estimated third party payor settlements	$ 38,147	

Management believes that estimated third party payor settlement liabilities are adequate. 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. Estimates are continually monitored and reviewed, and as settlements are made, differences are reflected in current operations.

NOTE 7. NET PATIENT SERVICE REVENUE (CONTINUED)

Other Third-Party Payors. The Hospital has patient service agreements with certain commercial insurance carriers, HMOs, 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.

The following summarizes gross charges, contractual allowances, provisions for bad debts and unsponsored charges as of June 30:

		2008	2007
Gross charges	$	**4,588,486**	4,291,735
Third-party contractual allowances and cost report settlements		**(467,248)**	(538,212)
Bad debts and changes in allowance for contractual accounts		**(588,159)**	(504,024)
Charity care		**(105,177)**	(160,416)
Net patient service revenue	$	**3,427,902**	3,089,083

NOTE 8. OPERATING LEASES

The Hospital leases various medical equipment under operating leases, including a CT system in which the Hospital is charged per scan, with a minimum number of scans required each month. Because the charge is based on the number of scans, the Hospital reports the expense in medical fees on the statements or revenue, expenses and changes in net assets

The following is a schedule by year of future minimum lease and scan payments under operating leases as of June 30, 2008, which have an initial lease term in excess of one year:

2009	$ 108,300
2010	108,300
2011	9,025
	$ 225,625

NOTE 9. RETIREMENT PLAN

The Hospital established a defined contribution retirement plan effective April 2001, entitled "Guadalupe County Hospital 403(b) Plan". The plan is administered by the Hospital. Although they have not expressed intent to do so, the Hospital can amend or terminate the plan at any time. All employees are eligible to participate in the plan after a 90-day probationary period. The plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 403(b) of the Internal Revenue Code.

The Hospital also established an employer contribution match of up to 3% of the employee's base wage, effective July 1, 2005. Employer contributions to the plan are discretionary and are fully vested once the employee is eligible to participate in the 403(b) plan. Employee and employer contributions to the plan for the year ended June 30, 2008 were $39,163 and $19,849, respectively. Employee and employer contributions to the plan for the year ended June 30, 2007, were $30,061 and $17,858, respectively.

NOTE 10. CONCENTRATION OF CREDIT RISK

Patient Accounts Receivable. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Management believes that estimates made for the allowance for doubtful accounts are adequate. Because of the uncertainty regarding the ultimate collectibility of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance for doubtful accounts will change by a material amount in the near term.

The Hospital recognizes that revenue and receivables from government agencies are significant to the Hospital's operations, but does not believe that there are any significant credit risks associated with these government agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

	2008	2007
Medicare	**36%**	35%
Medicaid	**8**	8
Self-pay	**19**	19
Commercial and other	**37**	38
	100%	100%

NOTE 11. CONTINGENCIES

Healthcare Regulatory Environment. The healthcare industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased 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, the imposition of significant fines and penalties and significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations. 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.

The Health Insurance Portability and Accountability Act (HIPPA) was enacted August 21, 1996, to assure health insurance portability, guarantee security and privacy of health information, enforce standards for health information and establish administrative simplification provisions. Management feels that the Hospital is in compliance with all applicable provisions of HIPPA.

Litigation. Management is not aware of any pending or threatened litigation or regulatory investigations. There may be, however, claims that are currently unasserted which could be filed for incidents that have occurred which the Hospital is not presently aware.

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.

NOTE 12. MILL LEVY

The state of New Mexico adopted a law in 1980, and amended that law in 1981, that allows for counties to provide expanded tax support to qualified hospitals. The Hospital received mill levy proceeds of $413,965 and $383,115 in 2008 and 2007, respectively, all of which were used to support operations. The current mill levy expires May 2009.

NOTE 13. SOLE COMMUNITY PROVIDER

The Hospital participates in a sole community provider indigent care program administered by the State of New Mexico. Revenues from this program in 2008 and 2007 were $222,977 and $184,224, respectively.

NOTE 14. RELATED PARTY TRANSACTIONS

The Hospital entered into the following related party transactions during the year ending June 30, 2008:

- The Hospital contracts with Alamo Locums, Inc. who provides on-call emergency and urgent medical services for the Hospital. Alamo Locums is owned by the Hospital's Chief of Staff. The amount paid to Alamo Locums in Fiscal year 2008 for these services was $641,430.

- The Hospital leases a Siemens Ultra-sound machine from the Santa Rosa Medical Clinic (Clinic). The Clinic's Medical Director is also the Hospitals Chief of Staff. The amount paid to the clinic during fiscal year 2008 for the lease was $4,081.

NOTE 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the following material events occurred:

- The Hospital has hired an architect to design a new hospital. It is the Hospital's intent to build and move into a new hospital during the 2011 fiscal year. The cost of the new hospital is estimated to be approximately $11,000,000. The Hospital currently has approximately $5,000,000 in funds available to build the new hospital.

- On September 29, 2008, the Hospital received $2,504,933 in sole community provider match funds. This amount is included in the $5,000,000 available for the new hospital building noted above.

NOTE 16. PRIOR PERIOD ADJUSTMENT

As part of our testwork over patient revenue and accounts receivable we performed an analysis of receipts subsequent to year-end. We reviewed deposits for two months after year-end for items that should have been recorded as revenue and receivables during the year. We found that there were significant balances received after year-end that should have been recorded as revenue and receivables at year-end that were not recorded as such.

The Hospital prepared reports showing the total amount of revenue at year-end that was recorded as revenue and accounts receivable after year-end. The amounts were $101,783 in 2008, $259,055 in 2007, and $40,030 in 2006.

The Hospital has a combined historical bad debt and contractual discounts and allowance rate of 70%. After applying this rate to the unbilled revenue, the impact on net-patient revenue for the 2008 and 2007 years was $(47,182) and $65,708, respectively. The prior year's increase in income was recorded as a prior period adjustment.

GUADALUPE COUNTY HOSPITAL
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2008

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Wells Fargo	GCH Operating Account	Checking	$ 213,064	172,311
Wells Fargo	GCH Savings Account	Checking	58,211	58,211
Wells Fargo	GCH Relief Fund	Checking	3,027	3,027
Wells Fargo	Certificate of Deposit	CD	500,000	500,000
Wells Fargo	Certificate of Deposit	CD	716,745	716,789
Wells Fargo	Certificate of Deposit	CD	880,904	881,691
Wells Fargo	Certificate of Deposit	CD	200,322	200,417
Wells Fargo	Certificate of Deposit	CD	276,911	276,978
			2,849,184	2,809,424
	Petty cash		-	100
Total deposit accounts			$ 2,849,184	2,809,524

GUADALUPE COUNTY HOSPITAL
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2008

	Wells Fargo
Deposits at June 30, 2008	$ 2,849,184
Less: CD held by Guadalupe County and fully collateralized	(500,000)
Less: FDIC coverage	(200,000)
Uninsured public funds	2,149,184
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	1,032,340
Uninsured and uncollateralized	$ 1,116,844
50% pledged collateral requirement per statute	$ 1,074,592
Total pledged collateral	1,032,340
Pledged collateral under the requirement	$ 42,252

Pledged collateral at June 30, 2008 consists of the following:

Security	CUSIP	Maturity	Market Value
Fed. Home Ln. Mtg. Corp. Bond	3128MS7G9	6/1/2037	$ 260,438
Fed. Natl. Mtg. Assn. Pool	31409CV69	5/1/2036	227,711
Fed. Natl. Mtg. Assn. Pool	31409CV69	5/1/2036	544,191
			$ 1,032,340

The custodian of the pledged securities is Wells Fargo Bank of California.

Porch & Associates LLC

CERTIFIED PUBLIC ACCOUNTANTS
3915 CARLISLE BLVD NE
ALBUQUERQUE, NM 87107

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*

Mr. Hector H. Balderas, State Auditor and
the Board of Directors and Management
Guadalupe County Hospital

We have audited the accompanying financial statements of the business-type activities of Guadalupe County Hospital (Hospital), as of and for the year ended June 30, 2008, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedule presented as supplementary information, and have issued our report thereon dated November 2, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 08-2, 08-4 and 08-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However of the significant deficiencies described above, we consider 08-4 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 test disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 08-1 and 08-3.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and the Office of the State Auditor, the New Mexico Legislature, and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.

Porch & Associates LLC

Albuquerque, New Mexico
November 2, 2008.

GUADALUPE COUNTY HOSPITAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

Status of the prior year audit findings:

07-1	Purchase Order Procedures	Resolved

GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008

08-1 Travel and Per Diem

CONDITION

As part of our audit we tested internal controls we tested 14 travel and per diem disbursements. We noted the Hospital passed an ordinance in September 2005 to reimburse mileage at a rate of $0.485 cents a mile. The Hospital follows the state of New Mexico's Travel and Per Diem Act. The Act allows $0.32 cents per mile. The total overpayment of mileage for the items tested was $310.

CRITERIA

NMSA Per Diem and Mileage Act Section 10-8-4 subsection D, states that mileage shall be reimbursed at .32 cents a mile when traveling in a privately owned vehicle and the travel is necessary to the discharge of official duties.

EFFECT

Mileage reimbursements were overpaid by $310. When the error rate is extrapolated to the total mileage expense for the year under audit it is estimated that the overpayment is $1,141 in the year under audit. As a result, the Hospital has less money to spend on medical care.

CAUSE

Because of the rising price of gas the Hospital wanted to reimburse employees at the federal rate. The Hospital was not aware that reimbursement rates were dictated by the state Per Diem and Mileage Act for governmental entities.

RECOMMENDATION

The Hospital should follow the NMSA Per Diem and Mileage Act when reimbursing mileage.

MANAGEMENT RESPONSE

Guadalupe County Hospital will immediately reduce mileage reimbursement rate to $.32 per mile to comply with state of New Mexico's Travel and Per Diem Act.

08-2 Internal Controls over Payroll Processing

CONDITION

As part of our audit we tested internal controls over the payroll cycle. We noted that for six of the twenty-three items tested, an I-9 form was not included in the employee file.

CRITERIA

As required by the Immigration Reform and Control Act of 1986, all employees, citizens and noncitizens hired after November 6, 1986 and working in the United States must complete a Form I-9.

CAUSE

The employee maintaining employee files did not know the requirement that an I-9 form should be completed for all employees.

EFFECT

Employers who fail to obtain the appropriate documentation are not in compliance with federal immigration laws and may be subject to fines.

RECOMMENDATION

The Hospital should obtain a Form I-9 from all new hires. The Hospital should also consider performing an audit on employee personnel files and verify a Form I-9 has been obtained for all employees.

MANAGEMENT RESPONSE

Guadalupe County Hospital has issued and collected I-9 forms for all current employees.

08-3 Pledging of Collateral for Public Money

CONDITION

The Hospital has deposit accounts for which the bank has not pledged sufficient collateral. The total amount of under-collateralized deposits is $42,252.

CRITERIA

Section 6-10-17, NMSA, 1978 Compilation requires the Hospital to collateralize an amount equal to one-half of public money in excess of $100,000 in each financial institution.

CAUSE

The Hospital does not have a procedure in place to review the pledge reporting on a monthly basis. The bank used par value in determining if pledged collateral is proper, but the State Auditor requires the market value of securities to be used.

EFFECT

The Hospital is not in compliance with state statute. The Hospital could also lose its money in excess of FDIC insurance if the financial institution fails.

RECOMMENDATION

The Hospital should inform the bank that they have not pledged sufficient collateralized. The Hospital should review the collateral reports on a monthly basis to ensure that banks are pledging sufficient collateral.

MANAGEMENT RESPONSE

Guadalupe County Hospital has brought this discrepancy to Wells Fargo's attention. To ensure that this does not happen again all Certificates of Deposit purchased in the future will be 100% FDIC covered through a CDARS network investment program.

08-4 Accounting for Patient Revenue and Accounts Receivable (Material Weakness)

CONDITION

As part of our testwork over patient revenue and accounts receivable we performed an analysis of receipts subsequent to year-end. We reviewed deposits for two months after year-end for items that should have been recorded as revenue and receivables during the year. We found that there were significant balances received after year-end that should have been recorded as revenue and receivables at year-end that were not recorded as such.

The Hospital prepared reports showing the total amount of revenue at year-end that was recorded as revenue and accounts receivable after year-end. The amounts were $101,783 in 2008, $259,055 in 2007, and $40,030.

The Hospital has a combined historical bad debt and contractual discounts and allowance rate of 70%. After applying this rate to the unbilled revenue, the impact on net-patient revenue for the 2008 and 2007 years was $(47,182) and $65,708, respectively.

CRITERIA

Generally accepted accounting principles and the full accrual basis of accounting require revenue and accounts receivable to be recorded when the Hospital has earned revenue and has rights to collect that revenue.

CAUSE

The Hospital was aware that it had unbilled revenue at year-end, but assumed that it was immaterial. The amount was not recorded because it was believed that it was immaterial.

EFFECT

The Hospital was understating accounts receivable, and misstating revenue. The Hospitals financial statements were materially misstated before the correction posted by the auditors.

RECOMMENDATION

The Hospital should develop a procedure that requires the unbilled revenue to be calculated and recorded at the end of each fiscal-year.

08-4 Accounting for Patient Revenue and Accounts Receivable (Material Weakness) (Continued)

MANAGEMENT RESPONSE

Guadalupe County Hospital will develop a procedure to measure and record all unbilled revenue at the end of each fiscal year.

08-5 Business Office Billing and Collection Procedures

CONDITION

As part of our audit we tested internal controls over the revenue and accounts receivable cycle. We tested 23 patient billings and noted following:

- For three of the items tested we found that charges generated, as documented by the doctors' charts, were omitted from the patient billing or billed at wrong amounts to the insurance company. The net effect of the omissions and errors was an under-billing of $1,509.

During our documentation of internal control over the revenue and accounts receivable cycle we also noted the following:

- There is no formal policy for collecting patient co-pays. Patients are not being asked for the co-pay when services are provided.

- Contractual adjustments received on Explanation of Benefits are not being compared to contractual agreements with payors. Insurance companies may be underpaying the hospital without the billing office knowing.

- Audits to detect errors and omissions in billing are not being performed on a timely basis.

In addition, we evaluated and tested the internal controls and procedures over the business office and the billing and collection procedures. We noted the following:

- Accounts receivable over 101 days old has increased in the year-under audit. This is a sign that the Hospital is not properly collecting past due receivables.

- The Hospital has seventy denied claims in the amount of $58,916 at year-end. When the auditor inquired about denied claims the staff in the business office could not say how many there were, or what the balance was. Denied claims should be reviewed for the reasons for denial and resubmitted on a timely basis.

CRITERIA

- One of the assertions inherent to the financial statements is completeness. Contractual agreements and billings should be reviewed for accuracy in order to determine if billings and subsequent receipts are accurate and complete. Good internal controls also dictate that co-pays should be collected at the time of admission. It is difficult to collect after services have been provided.

08-5 Business Office Billing and Collection Procedures (Continued)

- The ability to collect accounts receivable on a timely basis is important because the longer a bill is outstanding, the more difficult it becomes to collect the balance. Hospital industry billing standards suggest the days in A/R be 75 days or less.

- It is important to track and understand claims denied by third party payors because those are claims that have been rejected for various reasons. When a claim is denied it delays receipt of payment. Generally a claim that contains no errors are paid fairly quickly, claims that have been rejected take time to understand why the claim was denied, fix the claim, resubmit the claim and finally get paid for that claim. Claims are denied for reasons including errors in coding, demographic information or misunderstand of filing requirements for that particular payor. The billings should be corrected and resubmitted in a timely fashion.

- Claims which are rejected due to being submitted after the third party filing deadline should be tracked so that management can understand how many dollars are being lost for this reason.

CAUSE

- Because contractual agreements differ among payors, the Hospital does not believe it is efficient to review contractual agreements for all payments received. Also because co-pays vary among insurance providers and many patients do not have insurance cards or the ability to pay co-pays upon admissions, the Hospital relies on billing patients to collect co-pays.

- The hospital is not collecting or clearing accounts on a timely basis.

- The hospital does not to appear to be tracking claims that are denied nor are they tracking claims filed beyond a required deadline.

- The hospital is not reviewing its accounts receivable rollforward on an on-going basis.

EFFECT

- Patients are being referred to collections because co-pays are not collected at the time of admission. In addition, the Hospital may be receiving patient payments from insurance companies that are below the amounts contractually agreed upon.

08-5 Business Office Billing and Collection Procedures (Continued)

- It may be taking longer to collect needed cash, and in addition, the hospital is losing money that it could potentially collect.

- It may be possible that entries to the billing system are being made in previous months for which may not be known when only doing monthly reconciliations.

RECOMMENDATION

- An official procedure should be implemented regarding collection of co-pays. An attempt should be made to collect co-pays from all patients. If the insurance card is not available, the maximum co-pay should be charged. If the patient cannot pay the co-pay at the time of admission, this should be documented on the patient's admission documents.

- The hospital should perform at least quarterly audits of a sample of receipts collected with contractual discounts.

- Annual reviews are currently conducted to detect errors and omissions in billing. Reviewing a years worth of transactions may be time consuming, and does not enable the Hospital to detect errors in a timely basis. We recommend performing monthly reviews of procedure codes to detect unusual transactions.

- We recommend that the hospital review all of its accounts for their ability to collect. If a bill is determined to be uncollectible, it should either be written off or sent to collections. If a bill has not been filed for some reason, it should be filed. All bills should be reviewed for timely filing within a reasonable time from discharge.

- We recommend that the hospital create a system that gives management the ability to understand the level of denied claims

- We recommend that the hospital track through a separate adjustment code all claims that are denied due to filing deadlines.

- We recommend that the hospital continue all charges payments and adjustments on an monthly basis and make sure they tie to the general ledger. In addition, we recommend that the hospital reconcile it's A/R system on an cumulative basis throughout the year.

08-5 Business Office Billing and Collection Procedures (Continued)

MANAGEMENT RESPONSE

- Guadalupe County Hospital will develop and implement policies and procedures to address the collection of co-pays.
- Quarterly audits will be implemented to compare actual receipts with contracted rates.
- Guadalupe County Hospital will perform periodic reviews to detect billing errors and omissions.
- Guadalupe County Hospital will improve the system for tracking and reviewing accounts for collectability. A billing software upgrade has been purchased and will be installed on November 14, 2008 to facilitate this and several other billing processes.
- Guadalupe County Hospital will implement a process to identify, measure, and manage denials (software upgrade).
- Guadalupe County Hospital will implement a process to identify, measure and minimize claims denied due to filing deadlines (software upgrade).
- Guadalupe County Hospital will develop and implement a process for reconciling Accounts Receivable to the General Ledger on a monthly, quarterly and cumulative basis (software upgrade).

GUADALUPE COUNTY HOSPITAL
EXIT CONFERENCE
Year Ended June 30, 2008

An exit conference was held on October 31, 2008. The following individuals were in attendance:

Representing Guadalupe County Hospital:

Danita Agar	Member of the Board
Christina Campos	Administrator
Bret Goebel	Chief Financial Officer

Representing Porch & Associates LLC:

Thad E. Porch	Managing Partner

***

The financial statements were prepared by Porch & Associates LLC from the original books and records of the Hospital. However, the contents of these financial statements remain the responsibility of the Hospital's management