

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

GUADALUPE COUNTY HOSPITAL

**Financial Statements, Supplementary Information
and
Independent Auditors' Reports**

June 30, 2009 and 2008

GUADALUPE COUNTY HOSPITAL

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GUADALUPE COUNTY HOSPITAL

JUNE 30, 2009

BOARD OF DIRECTORS AND PRINCIPAL EMPLOYEES

Board of Directors

Robert Cordova	President
Danita Agar	Vice-President
Loretta Lopez	Secretary/Treasurer
Tim Dodge	Member
David Sheehan	Member

Principal Employees

Christina Campos	Administrator
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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 years ended June 30, 2009 and 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.

We conducted our audits 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 audits provide 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, 2009 and 2008, 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 October 2, 2009, 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 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.

Perch & Associates LLC

Albuquerque, New Mexico
October 2, 2009

**GUADALUPE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

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, 2009. 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 \$3,152,969 from a year ago. This increase in total assets is due primarily to the following:

- ◆ Current Assets, including cash and cash equivalents grew by \$2,724,216 due to increased revenues.
- ◆ The Hospital has Construction-in-progress of \$449,846 consisting primarily of architectural design work.

**TABLE 1
NET ASSETS**

	2009	2008
Current assets	\$ 6,096,865	3,372,649
Noncurrent assets	511,275	82,522
Total assets	\$ 6,608,140	3,455,171
Current liabilities	\$ 477,782	247,054
Net assets		
Invested in capital assets	511,275	82,522
Unrestricted	5,619,083	3,125,595
Total net assets	6,130,358	3,208,117
Total liabilities and net assets	\$ 6,608,140	3,455,171

**GUADALUPE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

The Hospital's total operating revenues decreased by \$99,650 from a year ago due to decreases in patient volumes.

Total operating expenses increased by \$103,109 from the prior year.

Salaries, wages, and employee benefits increased \$88,723 due to a 3% cost of living adjustment and higher employer cost share of employee health insurance and increased nursing staff.

**TABLE 2
CHANGE IN NET ASSETS**

	<u>2009</u>	<u>2008</u>
Total operating revenue	\$ 3,283,551	3,383,201
Total operating expenses	<u>3,663,807</u>	<u>3,560,698</u>
Operating Loss	(380,256)	(177,497)
Other revenues	<u>3,302,497</u>	776,023
Change in net assets	2,922,241	598,526
Beginning net assets	<u>3,208,117</u>	2,609,591
Total net assets, end of year	<u>\$ 6,130,358</u>	<u>3,208,117</u>

As the Hospital completed the year, total net assets increased by \$2,922,241 to \$6,130,358 from the \$3,208,117 of a year ago.

Budgetary Highlights

Total net patient service revenue was under budget by \$469,386 due to lower than anticipated patient volumes. Expenses also were under budget by \$197,700 due to the decreased volumes.

Capital Assets

At the end of fiscal year 2009, the Hospital had \$65,001 net of depreciation, invested in capital assets, as compared with \$82,522 at the end of fiscal year 2008. 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. Additionally the Hospital has capitalized \$449,846 in construction in progress. This amount is for architectural and related expenditures that pertain to the design and planning of a new facility. A new facility is planned with groundbreaking expected in the spring of 2010.

**GUADALUPE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

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, gross patient revenue is projected at \$3,896,617 consistent with fiscal year 2009. There is a price and a volume increase in net revenue of 5.5% anticipated.

All personnel are to receive a 3% increase commencing July 1, 2009.

Overall expenses are budgeted to grow at 3.3%, 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, 2009 and 2008**

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,445,379	2,809,524
Receivables		
Patient accounts receivable, net	348,192	412,823
Sole community provider	76,118	-
Grant	21,626	-
Interest	33,468	-
Other	4,329	7,762
Supplies inventory and other current assets	167,753	142,540
Total current assets	<u>6,096,865</u>	<u>3,372,649</u>
Capital assets, net	<u>511,275</u>	82,522
Total assets	<u>\$ 6,608,140</u>	<u>3,455,171</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 369,068	117,996
Accrued payroll and related liabilities	98,075	90,911
Estimated third-party payor settlements	10,639	38,147
Total current liabilities	<u>477,782</u>	<u>247,054</u>
Net Assets		
Invested in capital assets	511,275	82,522
Unrestricted	5,619,083	3,125,595
Total net assets	<u>6,130,358</u>	<u>3,208,117</u>
Total liabilities and net assets	<u>\$ 6,608,140</u>	<u>3,455,171</u>

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, 2009 and 2008**

	2009	2008
Operating Revenues		
Net patient service revenue	\$ 3,279,803	3,379,799
Other revenue	3,748	3,402
Total operating revenues	3,283,551	3,383,201
Operating Expenses		
Medical fees	1,004,868	1,010,301
Salaries and wages	1,301,427	1,215,976
Supplies	502,233	484,912
Employee benefits	318,756	315,483
Management fees	232,481	232,715
Repairs and maintenance	94,703	80,600
Insurance	58,745	67,063
Utilities	46,619	49,920
Rents and leases	21,433	36,268
Other	61,449	46,854
Depreciation	21,093	20,606
Total operating expenses	3,663,807	3,560,698
Operating loss	(380,256)	(177,497)
Nonoperating Revenue (Expense)		
Grant income	41,498	48,103
Investment income	145,558	90,803
Other non-operating expenses	-	(4,000)
Other non-operating revenues	3,415	4,175
Mill levy (property taxes)	399,776	413,965
Sole community provider	2,712,250	222,977
Total nonoperating revenue (expense)	3,302,497	776,023
Change in net assets	2,922,241	598,526
Total net assets, beginning of year	3,208,117	2,609,591
Total net assets, end of year	\$ 6,130,358	3,208,117

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

**GUADALUPE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008**

	2009	2008
Cash Flows From Operating Activities		
Cash received from patients and third-party payors	\$ 3,324,107	3,341,717
Cash paid to suppliers	(2,036,666)	(2,010,413)
Cash paid to employees	(1,613,019)	(1,512,292)
Net cash used by operating activities	<u>(325,578)</u>	<u>(180,988)</u>
Cash Flows From Non-Capital and Related Financing Activities		
Grants	19,872	48,103
Miscellaneous income	3,415	4,350
Mill levy (property taxes)	399,776	410,615
Sole community provider	2,636,132	274,830
Net cash provided by Non-Capital and Related Financing Activities	<u>3,059,195</u>	<u>737,898</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(209,852)	(33,060)
Cash Flows From Investing Activities		
Investment income	112,090	90,803
Net increase in cash	<u>2,635,855</u>	<u>614,653</u>
Cash and cash equivalents, beginning of year	<u>2,809,524</u>	<u>2,194,871</u>
Cash and cash equivalents, end of year	<u>\$ 5,445,379</u>	<u>2,809,524</u>
Reconciliation of the Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (380,256)	(177,497)
Adjustments to reconcile the operating loss to net cash provided by operating activities		
Depreciation	21,093	20,606
Provision for bad debts, net of recoveries	535,994	588,159
Changes in assets and liabilities:		
Patient accounts receivable, net	(471,363)	(618,536)
Other receivables	3,433	4,312
Supplies inventory and other current assets	(25,213)	(9,615)
Accounts payable	11,078	30,946
Accrued payroll and related liabilities	7,164	-
Estimated third-party payor settlements	(27,508)	(19,363)
Net cash used by operating activities	<u>\$ (325,578)</u>	<u>(180,988)</u>

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

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

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 May 19, 2009 for the period of July 1, 2009 through June 30, 2011.

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.

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

**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, certificates of deposit, and money market funds.

The total balance in any single financial institution may at times exceed the \$250,000 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 \$250,000 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.

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

**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
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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.

GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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.

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reclassifications. Certain 2008 amounts have been reclassified to be consistent with the 2009 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, 2009, the Hospital's bank balance total of \$5,476,582 was exposed to credit risk in the amount of \$1,612,559 as follows:

Uninsured and collateral held by pledging bank's trust department not in the Hospital's name	<u>\$ 1,612,559</u>
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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 (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:

	2009	2008
Gross patient accounts receivable	1,063,273	1,292,232
Allowance for doubtful accounts and contractual allowances	<u>(715,081)</u>	<u>(879,409)</u>
Net patient accounts receivable	<u>\$ 348,192</u>	<u>412,823</u>

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 5. CAPITAL ASSETS

Capital asset activity for the Hospital for the year ended June 30, 2009 was as follows:

	2009			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not depreciated:				
Construction in process	\$ -	449,846	-	<u>449,846</u>
Capital assets being depreciated:				
Equipment	\$ 489,175	-	(4,000)	485,175
Less accumulated depreciation for equipment	<u>(406,653)</u>	<u>(21,093)</u>	<u>4,000</u>	<u>(423,746)</u>
Total, depreciated, net	<u>\$ 82,522</u>	<u>(21,093)</u>	<u>-</u>	<u>61,429</u>
Total capital assets, net	<u>\$ 82,522</u>	<u>428,753</u>	<u>-</u>	<u>511,275</u>

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

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

NOTE 6. 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.

GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6. 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. Through the Hospital's contracts with the MCOs, inpatient acute care services are primarily paid at per diem rates. Outpatient services are paid as a percentage of charges.

Medicare and Medicaid cost report liabilities are as follows at June 30, 2009:

	Amount	Status
Medicare		
2006	\$ (15,518)	Final settlement
2008	-	Tentative settlement
2009	<u>10,000</u>	Not filed
	<u>(5,518)</u>	
Medicaid		
2006	(2,439)	Final settlement
2007	6,000	Unaudited
2008	2,500	Unaudited
2009	<u>10,096</u>	Not filed
	<u>16,157</u>	
Estimated third party payor settlements	<u>\$ 10,639</u>	

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 could change by a material amount in the near term.

GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6. NET PATIENT SERVICE REVENUE (CONTINUED)

Estimates are continually monitored and reviewed, and as settlements are made, differences are reflected in current operations.

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:

	2009	2008
Gross charges	\$ 4,569,340	4,508,729
Third-party contractual allowances and cost report settlements	(724,356)	(467,248)
Bad debts and changes in allowance for contractual accounts, net of recoveries	(535,994)	(556,505)
Charity care	<u>(29,187)</u>	<u>(105,177)</u>
Net patient service revenue	<u>\$ 3,279,803</u>	<u>3,379,799</u>

NOTE 7. 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, 2009, which have an initial lease term in excess of one year:

2010	\$ 108,300
2011	<u>9,025</u>
	<u>\$ 117,325</u>

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 8. 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, 2009 were \$37,730 and \$18,685, respectively. Employee and employer contributions to the plan for the year ended June 30, 2008, were \$39,163 and \$19,849, respectively.

NOTE 9. 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:

	2009	2008
Medicare	25%	36%
Medicaid	13	8
Self-pay	22	19
Commercial and other	40	37
	<u>100%</u>	<u>100%</u>

**GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 10. 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 11. 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 \$399,776 and \$413,965 in 2009 and 2008, respectively, all of which were used to support operations. The current mill levy expires December 2016.

GUADALUPE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 12. 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 2009 and 2008 were \$2,712,250 and \$222,977, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

The Hospital entered into the following related party transactions during the year ending June 30, 2009:

- 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 2009 for these services was \$674,460.
- The Hospital leases a Siemens Ultra-sound machine from the Santa Rosa Medical Clinic (Clinic). The Clinic's Medical Director is also the Hospital's Chief of Staff. The amount paid to the clinic during fiscal year 2009 for the lease was \$4,080, or \$340 per month.

NOTE 14. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, 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.

**GUADALUPE COUNTY HOSPITAL
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
Year Ended June 30, 2009**

	Original Budget	Revised Budget	Actual	Variance with Final Budget - Positive (Negative)
Operating Revenues				
Net patient service revenue	\$ 3,664,460	3,664,460	3,279,803	(384,657)
Other revenue	3,345	3,345	3,748	403
Total operating revenues	<u>3,667,805</u>	<u>3,667,805</u>	<u>3,283,551</u>	<u>(384,254)</u>
Operating expenses				
Medical fees	1,047,021	1,047,021	1,004,868	42,153
Salaries and wages	1,257,432	1,257,432	1,301,427	(43,995)
Supplies	549,066	549,066	502,233	46,833
Employee benefits	340,596	340,596	318,756	21,840
Management fees	247,429	247,429	232,481	14,948
Repairs and maintenance	90,712	90,712	94,703	(3,991)
Insurance	71,055	71,055	58,745	12,310
Utilities	52,233	52,233	46,619	5,614
Rents and leases	41,541	41,541	21,433	20,108
Other	48,019	48,019	61,449	(13,430)
Depreciation	20,999	20,999	21,093	(94)
Total operating expenses	<u>3,766,103</u>	<u>3,766,103</u>	<u>3,663,807</u>	<u>102,296</u>
Operating loss	<u>(98,298)</u>	<u>(98,298)</u>	<u>(380,256)</u>	<u>(281,958)</u>
Nonoperating Revenue (Expense)				
Grant income	25,585	25,585	41,498	15,913
Investment income	98,856	98,856	145,558	46,702
Other non-operating expenses	(4,944)	(4,944)	-	4,944
Other non-operating revenues	5,012	5,012	3,415	(1,597)
Mill levy (property taxes)	366,226	366,226	399,776	33,550
Sole community provider	227,583	2,661,649	2,712,250	50,601
Total nonoperating revenue (expense)	<u>718,318</u>	<u>3,152,384</u>	<u>3,302,497</u>	<u>150,113</u>
Change in net assets	<u>\$ 620,020</u>	<u>3,054,086</u>	<u>2,922,241</u>	<u>(131,845)</u>
Net assets, beginning of year			<u>3,208,117</u>	
Net assets, end of year			<u>\$ 6,130,358</u>	

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	\$ 3,020,197	3,020,197	3,379,799	359,602
Other	4,636	4,636	3,402	(1,234)
Total operating revenues	<u>3,024,833</u>	<u>3,024,833</u>	<u>3,383,201</u>	<u>358,368</u>
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	46,854	(9,834)
Depreciation	24,823	24,823	20,606	4,217
Total operating expenses	<u>3,455,768</u>	<u>3,455,768</u>	<u>3,560,698</u>	<u>(104,930)</u>
Operating loss	<u>(430,935)</u>	<u>(430,935)</u>	<u>(177,497)</u>	<u>253,438</u>
Nonoperating Revenue (Expense)				
Grant income	20,000	20,000	48,103	28,103
Investment income	112,299	112,299	90,803	(21,496)
Other non-operating expenses	(300,000)	(300,000)	(4,000)	296,000
Other non-operating revenues	6,711	6,711	4,175	(2,536)
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)	<u>433,713</u>	<u>433,713</u>	<u>776,023</u>	<u>342,310</u>
Change in net assets	<u>\$ 2,778</u>	<u>2,778</u>	<u>598,526</u>	<u>595,748</u>
Net assets, beginning of year			<u>2,609,591</u>	
Net assets, end of year			<u><u>\$ 3,208,117</u></u>	

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

GUADALUPE COUNTY HOSPITAL
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2009

Depository	Account Name	Type	Depository Balance	Reconciled Balance
Wells Fargo	GCH Operating Account	Checking	\$ 85,131	53,828
Wells Fargo	GCH Savings Account	Savings	1,362,419	1,362,419
Wells Fargo	GCH Investment Account	Note 1	3,278,892	3,278,892
Wells Fargo	Certificate of Deposit	CD	500,000	500,000
Wells Fargo	Certificate of Deposit	CD	250,140	250,140
			<u>5,476,582</u>	<u>5,445,279</u>
	Petty cash		-	100
			<u>\$ 5,476,582</u>	<u>5,445,379</u>
Total deposit accounts			\$ 5,476,582	5,445,379

Note 1 - The investment account balance consists of \$3,273,873 in certificates of deposit, and \$5,019 in money market funds. The certificates of deposit are invested at various financial institutions in amounts below the FDIC insurance limit.

GUADALUPE COUNTY HOSPITAL
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2009

	Wells Fargo
Deposits at June 30, 2009	\$ 5,476,582
Less: CD held by Guadalupe County and fully collateralized	(500,000)
Less: FDIC coverage	(3,364,023)
Uninsured public funds	1,612,559
Pledged collateral held by the pledging bank's trust department or agent but not in the Village's name	2,220,708
Uninsured and uncollateralized	\$ (608,149)
50% pledged collateral requirement per statute	\$ 806,280
Total pledged collateral	2,220,708
Pledged collateral over the requirement	\$ (1,414,429)

Pledged collateral at June 30, 2009 consists of the following:

Security	CUSIP	Maturity	Market Value
Fed. Home Ln. Mtg. Corp. Bond	3128MS7G9	6/1/2037	\$ 234,974
Fed. Natl. Mtg. Assn. Pool	31409CV69	5/1/2036	1,501,325
Fed. Natl. Mtg. Assn. Pool	31409CV69	5/1/2036	484,409
			\$ 2,220,708

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, 2009, 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 October 2, 2009. 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: 08-5.

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

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 08-5 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, 09-1 and 09-2.

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.

Perch & Associates LLC

Albuquerque, New Mexico
October 2, 2009

**GUADALUPE COUNTY HOSPITAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2009**

Status of the prior year audit findings:

08-1	Travel and per diem	Modified and repeated
08-2	Internal Controls over Payroll Processing	Resolved
08-3	Pledging of Collateral for Public Money	Resolved
08-4	Accounting for Patient Revenue and Accounts Receivable (Material Weakness)	Resolved
08-5	Business Office Billing and Collection Procedures	Modified and repeated

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

08-1 Travel and Per Diem

CONDITION

As part of our audit we tested internal controls over travel and per diem and tested 22 disbursements.

- We noted that employees are paid both partial and full day per diem when traveling. The Hospital is paying partial day per diem as meal money, and full day per diem for the hotel.
- For one disbursement tested we noted that there was no supporting documentation for actual expenses when per diem rates were not used.

CRITERIA

- Per Diem Rates Proration, Section 2.42.2.8, sub section B (NMSA 1978), states that travel will be paid either at an overnight rate, or at a partial day rate, not both.
- Per Diem Rates Proration, Section 2.42.2.8, & 2.42.2.9 (NMSA 1978), states that either per diem rates will be paid or in lieu of per diem rates the employee may choose to receive reimbursement based on actual expenses. For actual expenses receipts must be attached to the reimbursement form.

EFFECT

- The Hospital has been overpaying employees for travel because they receive both partial and full day per diem rates.
- An employee was paid an advance, but no supporting documents were turn in to prove that the money was spent.

CAUSE

- The Hospital was unaware that the partial day per diem was strictly for partial day travel. The Hospital was under the assumption that partial day travel per diem was for meals expense, and full day travel per diem was for the hotel expense.
- Insufficient review of supporting documentation when actual expenses are claimed.

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

08-1 Travel and Per Diem (Continued)

RECOMMENDATION

The Hospital should follow the Per Diem and Mileage Act when paying per diem, or actual expenses for reimbursement. The Hospital should consider obtaining training on the Per Diem and Mileage Act.

MANAGEMENT RESPONSE

- Guadalupe County Hospital will review and revise Travel and Per Diem policies and procedures to become compliant with the Per Diem and Mileage Act.
- The Hospital will, furthermore, obtain training on the Per Diem and Mileage Act.

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

08-5 Business Office Billing and Collection Procedures (Material Weakness)

CONDITION

During our review of the internal controls in the billing office we noted that adjustments to patient accounts were not being monitored or reviewed by those other than the billing office staff.

In addition, during the review of the internal controls it was noted that the cash receipt books were numbered, but not being reconciled, and that the individual who has the receipt book also has the ability to generate charges.

CRITERIA

Adjustments to patient accounts should be reviewed and approved by someone not associated with the billings or collections process.

Receipt books should be pre-numbered and reconciled on a regular basis.

EFFECT

When allowances are not reviewed, it is possible for the business office to misallocate or write off accounts which should not be written off. It is possible that internal controls are not being followed and possible misappropriation of funds could occur. It is therefore important to review these allowances to make sure they are appropriate and that the proper allocation of allowances is followed.

It is possible that a person could generate a charge for a patient, take their money, give them a receipt, and then keep the money.

CAUSE

The Hospital has not established a procedure to review adjustments and write-offs of patient accounts.

The Hospital has not established a policy reconciling the prenumbered receipt books.

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

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

RECOMMENDATION

We recommend that all adjustments and write-offs be reviewed either by the CFO or hospital administrator.

We recommend that The Hospital use prenumbered receipt books and reconcile them on a regular basis.

MANAGEMENT RESPONSE

- Guadalupe County Hospital will develop and implement a process for reviewing all adjustments and write offs either by the CFO or the Hospital Administrator.
- Guadalupe County Hospital will develop and implement a process to ensure that our pre-numbered receipt books are controlled and periodically reconciled.

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

09-1 Contracting for Audit Services

CONDITION

The Hospital had an audit performed without having an approved contract by the State Auditor's Office.

CRITERIA

Section 12-6-14 NMSA 1978 states that "the State Auditor shall notify each agency designated for audit by an independent audit, and the agency shall enter into a contract with an independent auditor of its choice in accordance with procedures prescribed by rules of the State Auditor.

EFFECT

A valid audit contract was not in place when the Hospital had its June 30, 2009 audit performed.

CAUSE

The auditor mistakenly believed that the audit contract had been signed and submitted to the State Auditor's Office.

RECOMMENDATION

The Hospital should not engage auditors without a valid contract in place.

MANAGEMENT RESPONSE

The Hospital will implement measures to ensure that proper procedures and timelines are followed in procuring and contracting for an annual audit.

**GUADALUPE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2009**

09-2 Late Audit Report

CONDITION

The June 30, 2009 audit report was not filed timely as required by State Auditor Rule NMAC 2.2.2.9.A. The audit report was submitted to the Office of the State Auditor on November 19, 2009.

CRITERIA

According to State Auditor Rule NMAC 2.2.2.9.A, the audited financial statements are due by December 1 following the fiscal year-end, thus requiring the June 30, 2009 report to be filed by November 15, 2006.

EFFECT

The Hospital is not in compliance with State Auditor rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2009. The Village does not have audited financial statements for use in borrowing, bonds, and grant applications.

CAUSE

An audit contract was not obtained in a timely manner. It took time to know the procedure for completing the audit when the contract had not been obtained.

RECOMMENDATION

The Hospital should obtain an audit contract before having an audit performed.

MANAGEMENT RESPONSE

The Hospital will implement measures to ensure that proper procedures and timelines are followed in procuring and contracting for an annual audit, and submitting the audit report to the State Auditor's Office in an orderly fashion prior to the specified deadline.

**GUADALUPE COUNTY HOSPITAL
EXIT CONFERENCE
Year Ended June 30, 2009**

An exit conference was held on October 2, 2009. The following individuals were in attendance:

Representing Guadalupe County Hospital:

David Sheehan
Frank Tenorio
Bret Goebel

Member of the Board
Assistant Administrator
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